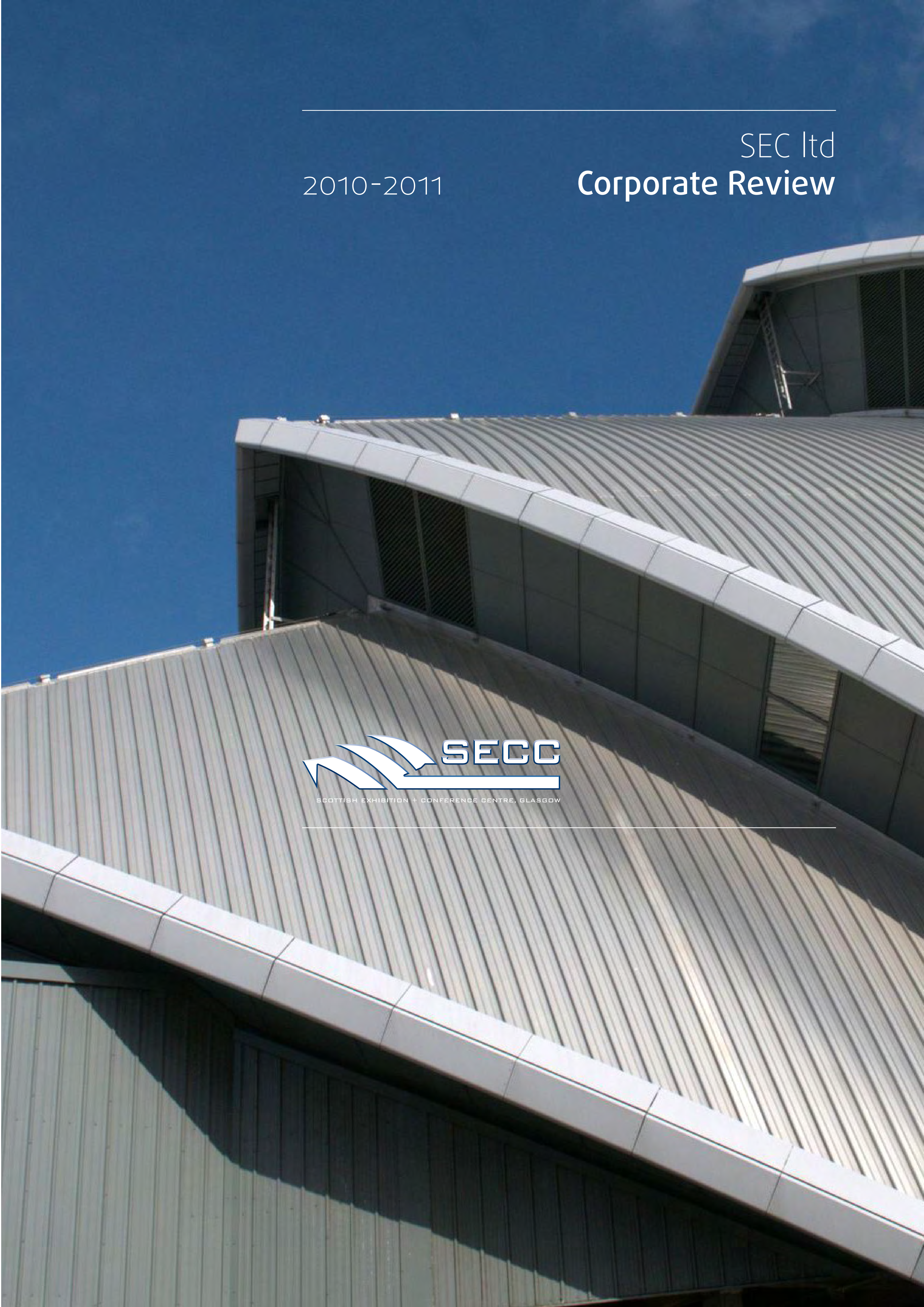
SEC ltd

Corporate Review

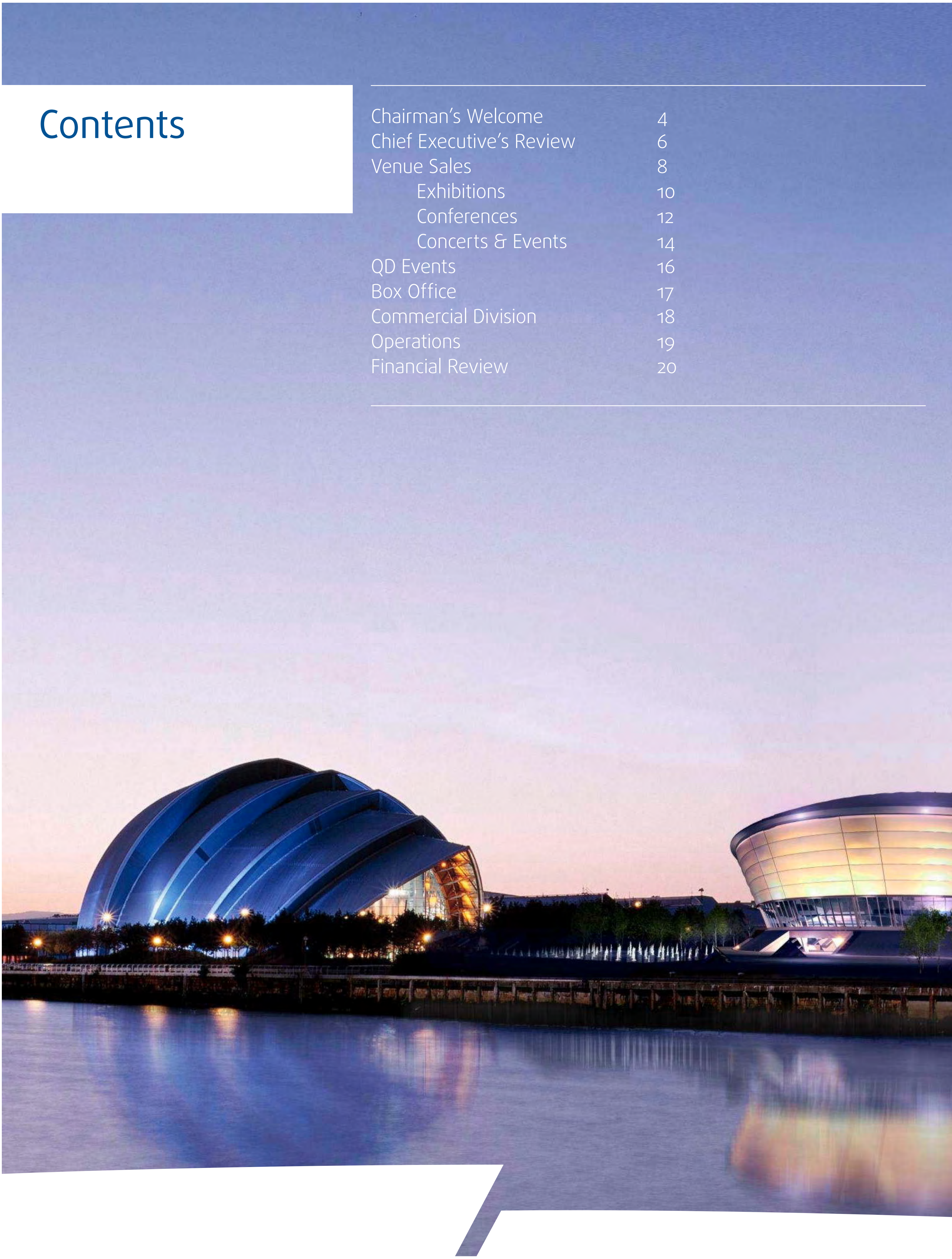
2010-2011



SECC

SCOTTISH EXHIBITION + CONFERENCE CENTRE, GLASGOW

Contents




CLYDEPORT

Chairman's Welcome

The commentaries most commonly appearing in the lexicon of business conversation at the moment are that difficult economic challenges may be with us for some time. This then is when strong businesses focus and steer a course of direction despite what lies in their path.

The year just ended is such a year for the business. The three main areas which the business has focused on have been looking after our existing business – our staff, our clients and customers and supply chain; focusing on the new Arena and related developments by shaping their progress; and preparing for the new world of an enlarged SECC campus and the opportunities that lie in wait.

We ended the year significantly ahead in group operating profit and overall profit for the year despite a financial reporting climate of decreased profits and depressed company reporting.

It was another year of significant milestones for the Arena project. We completed the piling and substructure contract and have now commenced the main contract for the Arena construction with Bovis Lend Lease. We are pleased to be once again partnering with Bovis. They built the original SECC building and also constructed the Clyde Auditorium so we were delighted with their success in being awarded the main Arena contract. This coming year will see the building begin to rise and take form after completion of the groundwork.

The new Arena will be nothing if the business model fails to deliver and in that regard I have some significant news to deliver in this report. During the year we entered into a long term commercial partnership with AEG who are better known as the owners and operators of the O2 in London, the Staples Center in Los Angeles and many other venues around the globe. Uniquely in the UK our relationship will be significant in realising the international ambitions we have for the enlarged business. They will offer pre-opening support in a number of areas, assistance with sponsorship through their global sponsorship team and they will also assist with content provision in the Arena. They are a truly impressive international venue operation and we are delighted to be working with them. Already a direct result of that relationship has been the naming rights deal for the new Arena which we have agreed with Scottish & Southern Energy Plc. The new Arena which will be known as the Scottish Hydro Arena will provide us with the kind of support that only a business such as SSE can provide – A top FTSE 30 company with a determination to make the Arena as successful for them as we wish it to be for us.

A significant deal was completed during the year when we agreed terms for a new 10 year joint venture with Compass Group who will be our Food and Beverage partner on site through their Levy Restaurants brand. I am delighted with the structure of the deal which aligns up both our objectives and also commits Compass to a £6m capital investment across the site.

I reported last year of the challenges which arose on our development sites as a result of the collapse of the commercial property market and our plan B strategy to ensure that the Arena remained on course. The new Car Park which will sit alongside the Arena has been an example of that planning. I am pleased to report that we proceeded to fill the void created by the loss

Sir Ian D. Grant
Chairman

"The real and sustained progress which has been evident in the business over the last 12 months is down to individuals across all our organisation."

of our development partner and have decided to act as principal developer on the site. In the past year we have selected a car park operator and a contractor on a design and build contract and we are now progressing with this package to the funding market. In the next year, we fully expect to have a completed forward sale and will then commence construction, thereby releasing a significant land receipt which will form part of the Arena funding plans.

Another significant milestone has been achieved with the relocation of our on-site heliport. After a long search we have identified a relocation site and agreed terms for purchase. We have also agreed terms for relocation of the heliport operator and as we progress with relocation we look forward to releasing the site for commercial development after the Commonwealth Games in 2014. I am also delighted to report that we have agreed an elegant sale and leaseback arrangement with our major shareholder Glasgow City Council to ensure that the Arena funding model is protected from the commercial climate. We will ultimately release the west site for development and use the proceeds to convert our occupational leases to ground leases in due course and provide value to the city, value to the business and a successfully completed Arena. This has been vindication for our collective choice to proceed with this ambitious project rather than close down the project in the face of the collapse of the property development market last year.

The real and sustained progress which has been evident in the business over the last 12 months is down to individuals across all our organisation and to them I offer my sincere gratitude and praise for the talents, skills dedication and commitment evident on a daily basis which drives our business forward and acts as a beating heart helping to drive the pulse of the Glasgow economy.

Chief Executive's Review

Over the past year we have seen another demonstration of the strength of our business coming from the diversification of market sectors we engage with to exploit our campus.

The underlying exhibition market continues to remain fragile as marketing budgets come under pressure and companies take less exhibition stand space because of perception of the soft return that such an investment brings. This has therefore impacted our business in two ways: our venue exhibition tenancy business remains challenging and our exhibition organising subsidiary has also endured a difficult trading period. The solution to both scenarios is a continued push to underline the benefits arising from a face to face trading exchange and also a drive to offer the best value we can to our internal and external clients.

On the other side of the spectrum, our event business performed particularly well this year with presentations of Hairspray, Blackwatch, Aladdin, and MAMMA MIA!. Aladdin, in particular, was significant because it was our first foray into large Christmas pantomime at a very competitive time of year and we were delighted with the success which John Barrowman and the Krankies generated at the venue by selling around 65,000 tickets.

We are particularly pleased with the success of our Box Office business over the last 12 months. ticketSOUP.com celebrated its first birthday last June and in such a short period of time we have firmly established the brand as a key ticketing agency within the Scottish marketplace, picking up a number of accolades and awards in the process. More importantly, it is a core commercial business which generates significant return to our bottom line.

Conference business was a strong bedrock during the year with ASME, World Parkinsons and Osseointegration standing out as major successful pieces of business. This side of our business will also be enhanced by a major initiative which builds on Glasgow's reputation for being at the front of the curve. The launch of the "Glasgow Model" during the year, in conjunction with Glasgow City Marketing Bureau – is a shared risk initiative thus allows the venue, the city marketing bureau and the client all to focus on making a conference increasingly successful to the extent that all partners marginally benefit from that success.

Our commercial division is now starting to see the returns from our investment in this area. We outperformed expectations with the launch of our new hospitality brand – "Sounds Good" – and we also started to see sponsor sales, brand activation and commercial development agreements coming to fruition. I have to pay special recognition to the areas which are not immediately available in our results - namely the long term business being secured for the future. Securing SSE as the naming rights partner for the new Arena has been a fantastic achievement largely brought about by our commercial team and the relationship we have with AEG and we know that this will deliver excellent value for our partner. When we announce the deal next year it will draw attention on an international scale.

As ever, costs control continues to be a feature of the business. Our model is to keep overheads tight, run efficiently and generate additional opportunities for investment and return through overachievement – that way we drive performance and keep the business operational base safe and in control. In this vein we have absorbed the AEG start up costs rather than match them against future revenues thus clearing a path for healthy returns once the revenue lines come through in due course.

John Sharkey
Chief Executive

On other matters, we completed our "Champions Programme" which recognised the companies and individuals who have helped to make the SECC the business it has become over the last 25 years. We are particularly indebted to our partners and presented our final 3 awards to Glasgow City Council and Scottish Enterprise, our principal public partners and to Foster + Partners, the architects of the Clyde Auditorium and new Arena.

Our continuing capital investment programme funded from business cash generation continues with another million pounds of capital spend in the past year on a boiler house replacement and air conditioning systems, toilets refurbishment and a new finance system. The spend is pretty reflective of our objectives – keeping the building fresh, improving our energy utilisation and carbon footprint and making sure we have the best visibility in driving our business forward.

Our cash management and treasury activities are absolutely central to the success of our business over the next few years. We will have trading cash flows, infrastructure cash flows, ticketing cash flows and a need to forecast with accuracy and place funds where they get the best marginal return without compromising our liquidity when needed. By adopting this strategy and managing our receipts and payments we continued to generate investment income in line with the previous year.

We continue to operate in a manner which makes it difficult for a casual reader of our accounts to understand. This is because there will be significant movements across our profit and loss account and balance sheet over the next few years as we deal with expenditure in relation to our infrastructure projects. The expenditure will be absorbed either through our profit and loss account or on our balance sheet. We will also conduct an assessment of the carrying value of the new Arena based on expected future cash flows from our enlarged business. We will also have real estate development expenditure and receipts which will go through our accounts. The new business model for the Arena will provide additional income flows and related debt associated with our funding. Given that all of the above will happen across different time frames, it is important that we clearly communicate what is happening and that we also out perform our expectations - not year on year numbers. If we do this we will continue to step forward boldly into a new future on solid ground.

Venue **Sales**

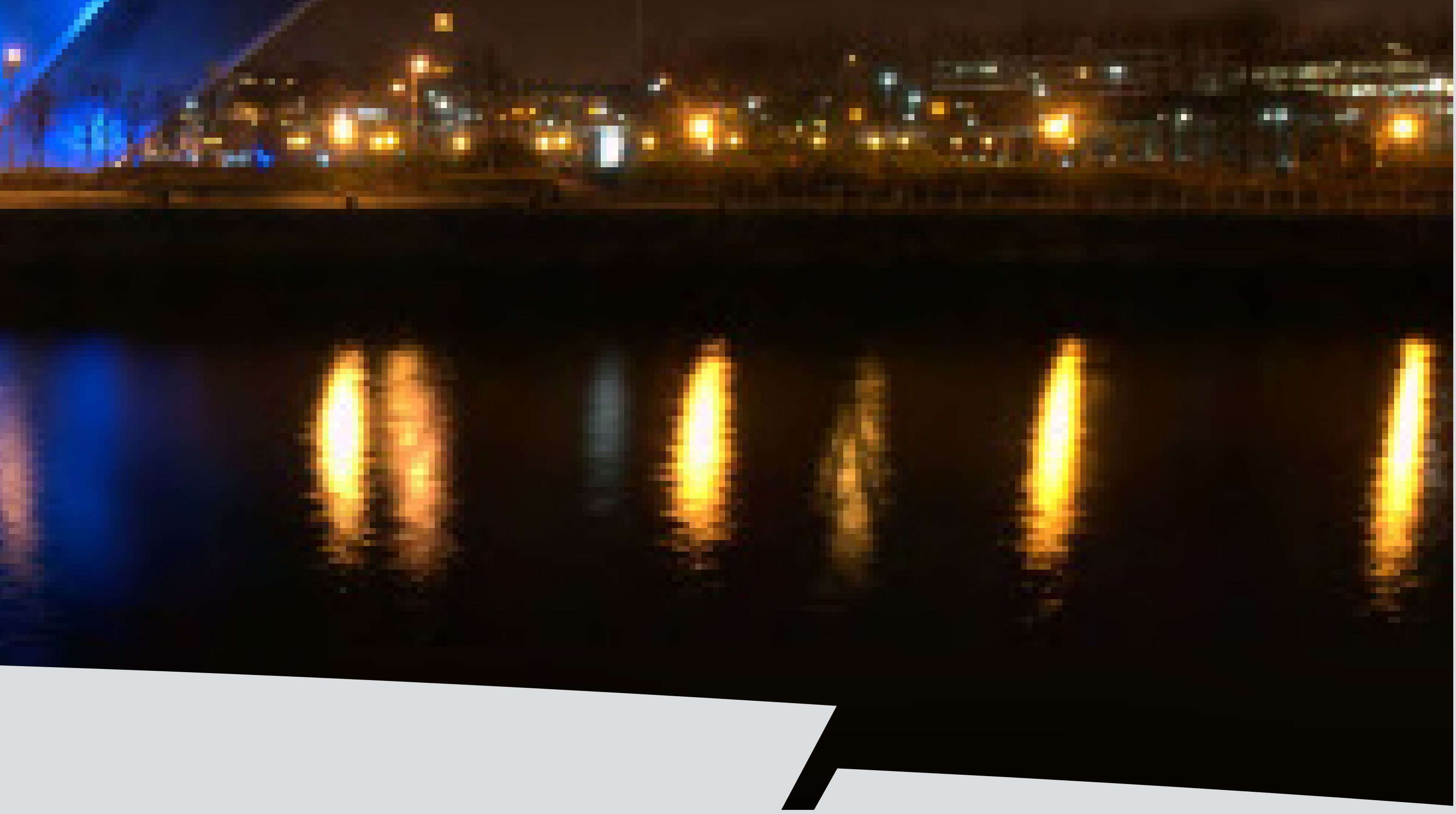
The financial year showed an overall moderate growth compared to the previous year's results. Market conditions for some areas of the business, such as the exhibition sector, have remained challenging, but overall it was a year of growth and continued financial success.

> “Overall it was a year of growth and continued financial success.”

The year was particularly successful in the conference and events sectors. Overall turnover in venue sales grew in 2010-2011 by a substantial 7% whereas trading profit grew by 4% compared to the previous year. The outlook for the coming financial year remains mixed with markets being quite volatile. We are approaching this by being creative in our offering and being flexible in our business approach.

2010 was the year in whichwe celebrated our 25th Anniversary by recognising 25 Champions who have helped us with our business and shared our success over the years. Champions included clients, suppliers, city and country partners, industry publications and other groups and individuals who have been instrumental in our overall success.

The SECC is the dynamic heart of attracting events of all kind to Glasgow. We share our success with many partners – Glasgow City Marketing Bureau, Glasgow Life, and our many commercial organisations such as the Greater Glasgow Hoteliers Association, the airport and transport companies. Most importantly, our clients consider us good to do business with.



Exhibitions

EXHIBITIONS AT A GLANCE

- 34 exhibitions, up 9% on previous year
- Public shows attendance 197,962
- Trade shows attendance 37,495
- Exhibitions accounted for 22% of venue
- turnover and 28% of venue gross profit

It was once again a challenging year for the exhibitions sectors but we were able to further strengthen our position as the leading Scottish exhibition venue. We are a key player in the exhibition sector in the United Kingdom and although the economic climate remains challenging we were able to launch a number of new shows and have further strengthened our relationship with local and regional clients. The number of shows grew by 9%, however, the strongest indication of a challenging economic climate was the fact that attendance at public shows went down by 31%. However, in looking forward to the coming financial year we expect this number to increase substantially.

Some examples of shows that we held during the year are the Country Living Christmas Fair, the Scottish Golf Show and Girls Day Out (PSP publishing).

Conferences

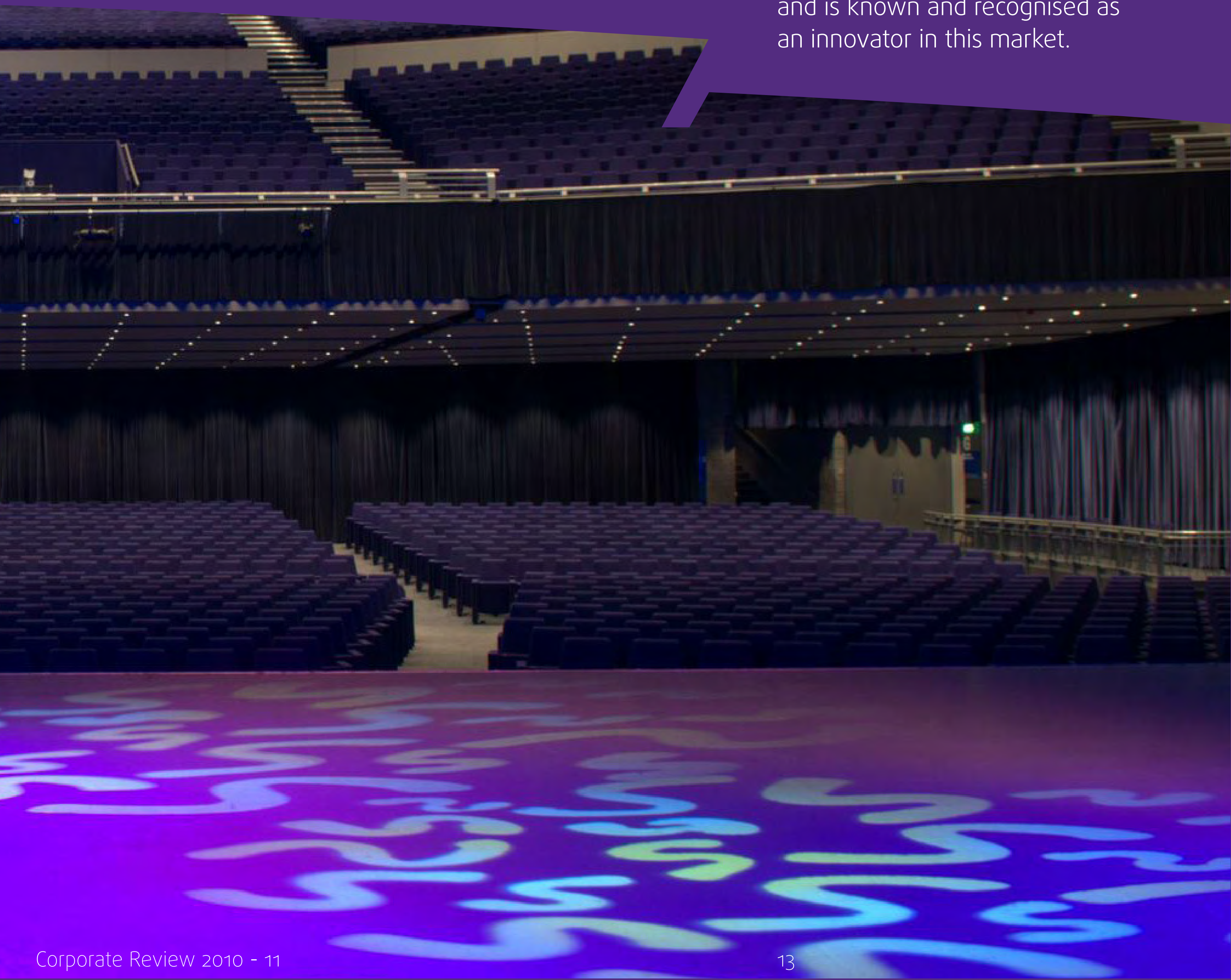
CONFERENCES AT A GLANCE

- 58 conferences, 18% growth on previous year
- 42,851 participants, 33% growth on previous year
- 140,067 delegate days, 35% growth on previous year
- Conferences accounted for 37% of venue turnover and 42% of venue gross profit 34% of venue gross profit

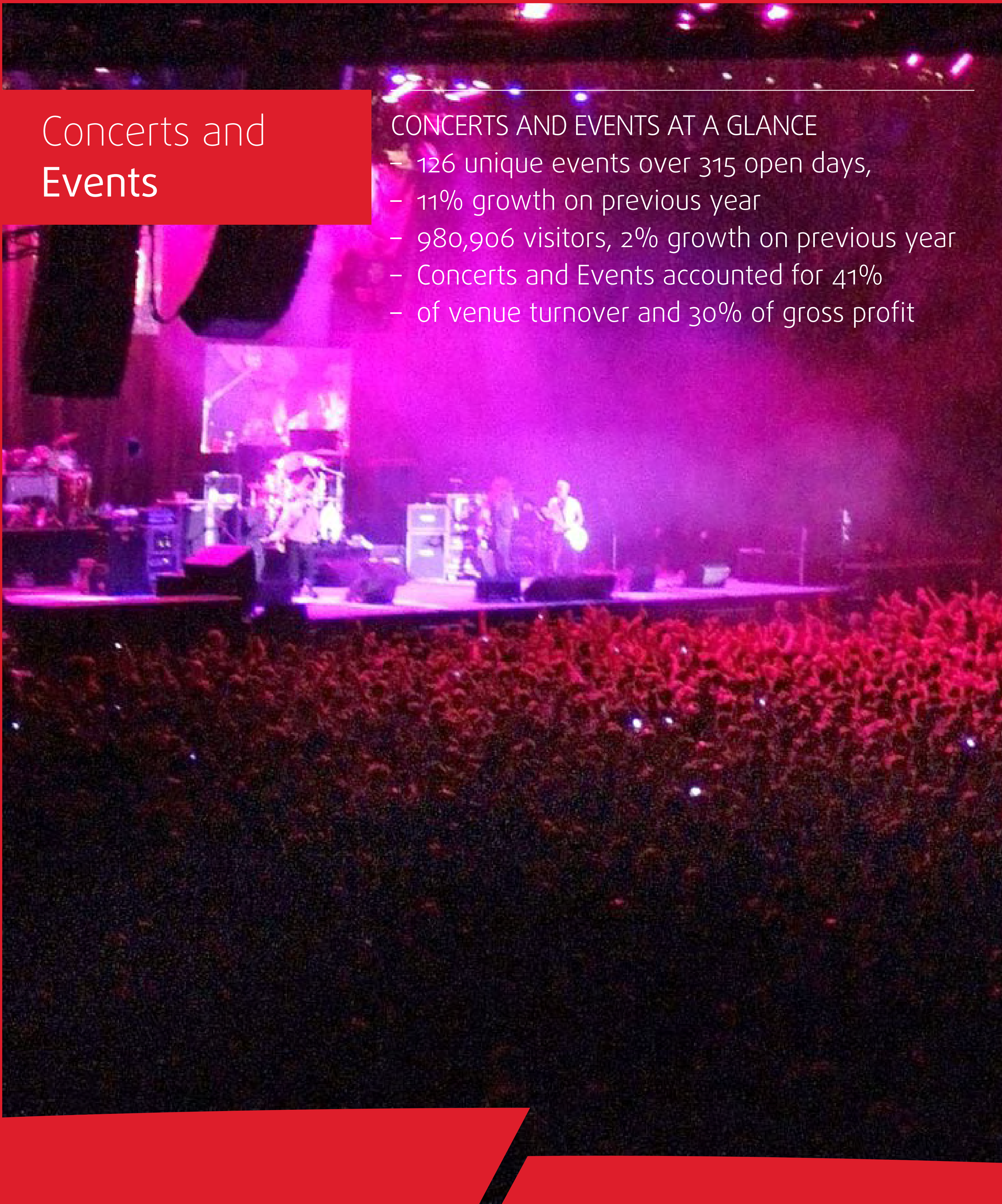
The conference sector showed strong growth on both turnover and gross profit and grew substantially by 45% and 44% respectively. The number of international conferences increased significantly and the total number of conferences held was up by 18% to 58 conferences. The national association and corporate sectors performed very well indeed and achieved excellent results. Overall conference participation grew to 42,851 (+33% on the previous year).

Examples of successful conferences were the American Society of Mechanical Engineers (ASME) Gas Turbine Expo 2010, the 19th Annual Scientific Meeting of the European Association for Osseointegration, the World Parkinson Congress, the 10th International Congress on Drug Therapy in HIV Infection, Summer Eventia 2010, Renewable UK 2010 and a substantial number of corporate events.

During the year we have been able to extend our reputation for excellence in the conference market. We were able to introduce an innovative, risk sharing product especially designed for national and international association clients. This product was brought to market together with our respected partner, Glasgow City Marketing Bureau and is known as "The Glasgow Model" and, to date, is the only such product in the market. The SECC is both nationally and internationally recognised as a principal player in the highly competitive conference market and is known and recognised as an innovator in this market.

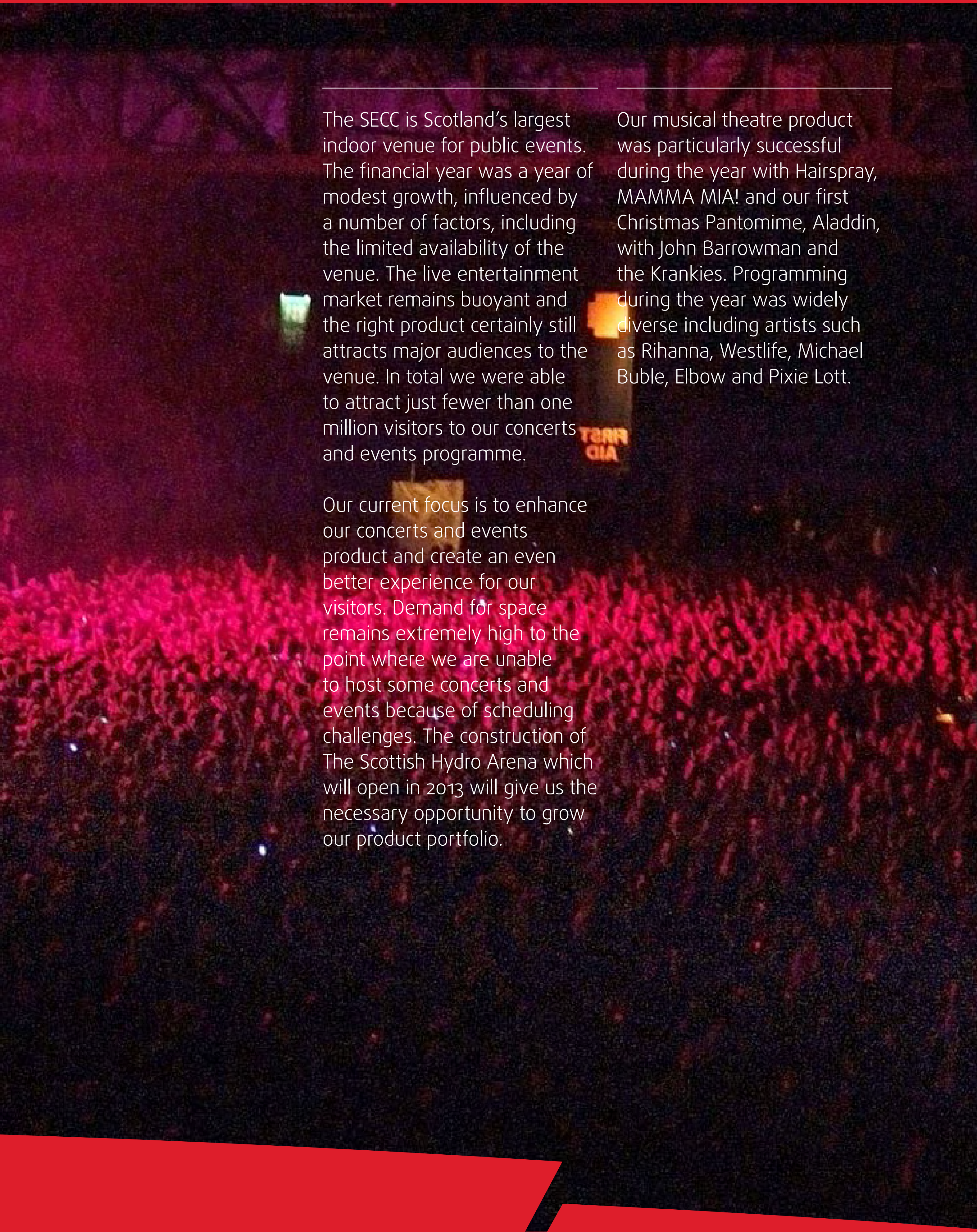


Concerts and Events



CONCERTS AND EVENTS AT A GLANCE

- 126 unique events over 315 open days,
- 11% growth on previous year
- 980,906 visitors, 2% growth on previous year
- Concerts and Events accounted for 41%
- of venue turnover and 30% of gross profit



The SECC is Scotland's largest indoor venue for public events. The financial year was a year of modest growth, influenced by a number of factors, including the limited availability of the venue. The live entertainment market remains buoyant and the right product certainly still attracts major audiences to the venue. In total we were able to attract just fewer than one million visitors to our concerts and events programme.

Our current focus is to enhance our concerts and events product and create an even better experience for our visitors. Demand for space remains extremely high to the point where we are unable to host some concerts and events because of scheduling challenges. The construction of The Scottish Hydro Arena which will open in 2013 will give us the necessary opportunity to grow our product portfolio.

Our musical theatre product was particularly successful during the year with Hairspray, MAMMA MIA! and our first Christmas Pantomime, Aladdin, with John Barrowman and the Krankies. Programming during the year was widely diverse including artists such as Rihanna, Westlife, Michael Buble, Elbow and Pixie Lott.

QD Events

QD EVENTS AT A GLANCE

– 208,477 visitors
– 34 days of events
– 1121 exhibitors

QD Events operates as a fully-owned subsidiary of the SECC, creating and managing exhibitions both in-house and in other venues across the UK.

In the past year, the company created and produced five large-scale consumer events and two business-to-business trade shows servicing the diverse markets of 'live events' and 'commercial fishing'.

Despite general consumer spend on the decline, the Irn-Bru Carnival saw attendance dramatically increase from 130,502 in 2009/10 to 154,163 in 2010/11 – the largest turnout in over 10 years. This was in part due to the timing of the school holidays, but also attributed to new leveraging of the social media platforms which are so relevant to this market. Against a backdrop of companies and public bodies substantially decreasing their marketing spend across television, radio and press, exhibitions and live events remain, if not strong, relatively stable where they are core to the industries they serve. QD Events will build on ensuring that the events they deliver remain core to the markets they serve and use the new technologies available to convert online communities into live audiences.

Box Office

TicketSOUP.com continued a spectacular launch year with another great year of consolidation. This was the highest ticket sales year experienced to date for the combined business.

It was also especially pleasing to see the business receive the best marketing strategy award for ticketSOUP at both the Scottish Marketing awards and Scottish Event Awards.

We continue to invest and innovate in our product and our brand. This year saw the delivery of a new queue management solution and a direct internet white label portal solution which consolidates our ability to be able to offer small bespoke box office solutions or mega hot ticket fulfillment solutions, all with a brand personality which is customer facing and engaging.

The past year continued with leisure and sporting fulfillment business both within and outside the venue.

The ticketing business continues to chase consolidation in the face of one dominant player both in the UK and the US. TicketSOUP however will continue to champion the cause of consumers as well as artists/ promoters in equal measure. Happy and contented customers going to sold out gigs and feeling better for the ticket buying experience is only good for all of us.

Whilst overall volumes fell during the year business value transacted was up on the previous year, giving a better yield to our business. It also represents a drive to maximize the type of business we pursue.

BOX OFFICE AT A GLANCE

- 938,000 tickets sold
- 1% increase in
- ticket sales

TICKETSOUP.COM®

Commercial

The highlight for the Commercial team this year was securing leading energy supplier Scottish Hydro as the naming rights partner for the new arena. The Scottish Hydro Arena is already being referred to as "The Hydro". Scottish Hydro will be investing £1.5 million per year over the next 10 years.

This high profile association with live music and entertainment will bring real benefits for its customers. We were assisted in securing this significant sponsorship deal by AEG Worldwide, demonstrating tangible benefits of our strategic partnership. We have also agreed a 10 year deal with our Food and Beverage partner, Compass Group. Through their Levy brand we will work together on a joint venture basis to exploit the current and future opportunities on site and they will also invest £6m capital across the venue as well.

A deal was also struck this year with Coca-Cola which has become the venue's new soft drinks partner. This sponsorship deal further cements our commitment to working with the best brands in the business in order to position Glasgow as a premiere destination for large scale international events. Discussions with potential partners across a wide range of business sectors are progressing with high levels of interest being expressed. The ambition is to have key partners for the Hydro Arena in place within the next year.

Glengoyne now sponsors our hospitality brand 'Sounds Good', which continues to be developed and will shortly be available on-line to a wider public market. An extensive range of VIP and hospitality offerings are being designed for 'The Hydro'. Two large format external advertising sites at the entrance to the venue are now active and producing revenue. A third significant structure facing the Expressway is planned.

With rates for conventional marketing channels falling and pressure on marketing budgets increasing, securing revenue for our commercial inventory continued to be challenging. Despite this, significant levels of income are being obtained through our varied commercial inventory. Advertising sites throughout the venue together with experiential and event related marketing, ticket sponsorship, affiliate advertising on our web sites and client branding on e-communication all continue to appeal to media agencies and brands that value exposure to our highly targeted audiences.

Operations

2010-11 was yet another year for focusing on operational costs in a continuing economically challenging climate.

"Careful planning ensured that there continued to be no impact on our business resulting from construction activity."

Rising energy costs continue to be a source of concern and in addition we have been preparing for our participation in the Government CRC Energy Efficiency scheme. We have continued to invest in energy efficient controls and lighting for the on-going toilet refurbishment project. We replaced the boilers in our main boilerhouse with improved efficiency boilers and we commenced a process that will eventually see much of the lighting within the Centre replaced with low energy LED fittings.

As if to emphasise the cost of energy, the year saw an exceptionally cold winter commencing in late November and continuing well into the New Year. Operations staff faced a sustained period of dealing with frozen pipes and keeping car parks and approaches clear on a scale that had never been experienced in the SECC's 25 year history. It is a tribute to the professionalism of the SECC staff and contractors that no events had to be cancelled due to our inability to operate the Centre.

From an event perspective, 2010-11 was as busy as ever. Theatre events were a big feature of the year with Hairspray – its first time out of London, The National Theatre of Scotland returning with Black Watch, our first Clyde Auditorium pantomime, Aladdin and the return of MAMMA MIA! to the Clyde Auditorium in March. That month was also a very busy time for Hall 4 concerts including Kylie accompanied by probably the biggest touring production we have hosted. We also had our first involvement with BBC Children in Need when Hall 5 was transformed into a TV studio. Conference highlights were the World Parkinson Congress and the European Association of Osseointegration, a conference with very demanding catering requirements but with very limited space for preparation and delegate service.

In February 2011 work commenced on the superstructure phase of our new 12,000 seat arena. The contract was awarded to Bovis Lend Lease and the project will be completed in 2013. Careful planning ensured that there continued to be no impact on our business resulting from construction activity.

Financial Review

Despite difficult economic circumstances the group has delivered an increase in retained profit for the year of over 300% to £0.4m. This was after booking a provision of £0.4m in the year for a VAT assessment raised by HMRC in respect of VAT treatment on show brochures – a campaign which was conducted across the industry.

Despite the increase in profits, the tax charge halved as a result of a reduction in the deferred tax rate from 28% to 26%, any future liability will be calculated at this rate. This left a retained profit of £0.4m for the year, an increase of £0.3m on the 2010 figure of £0.1m. Group turnover at £18.2m increased by 10% compared to the previous year with the biggest increase as expected in the Conference sector.

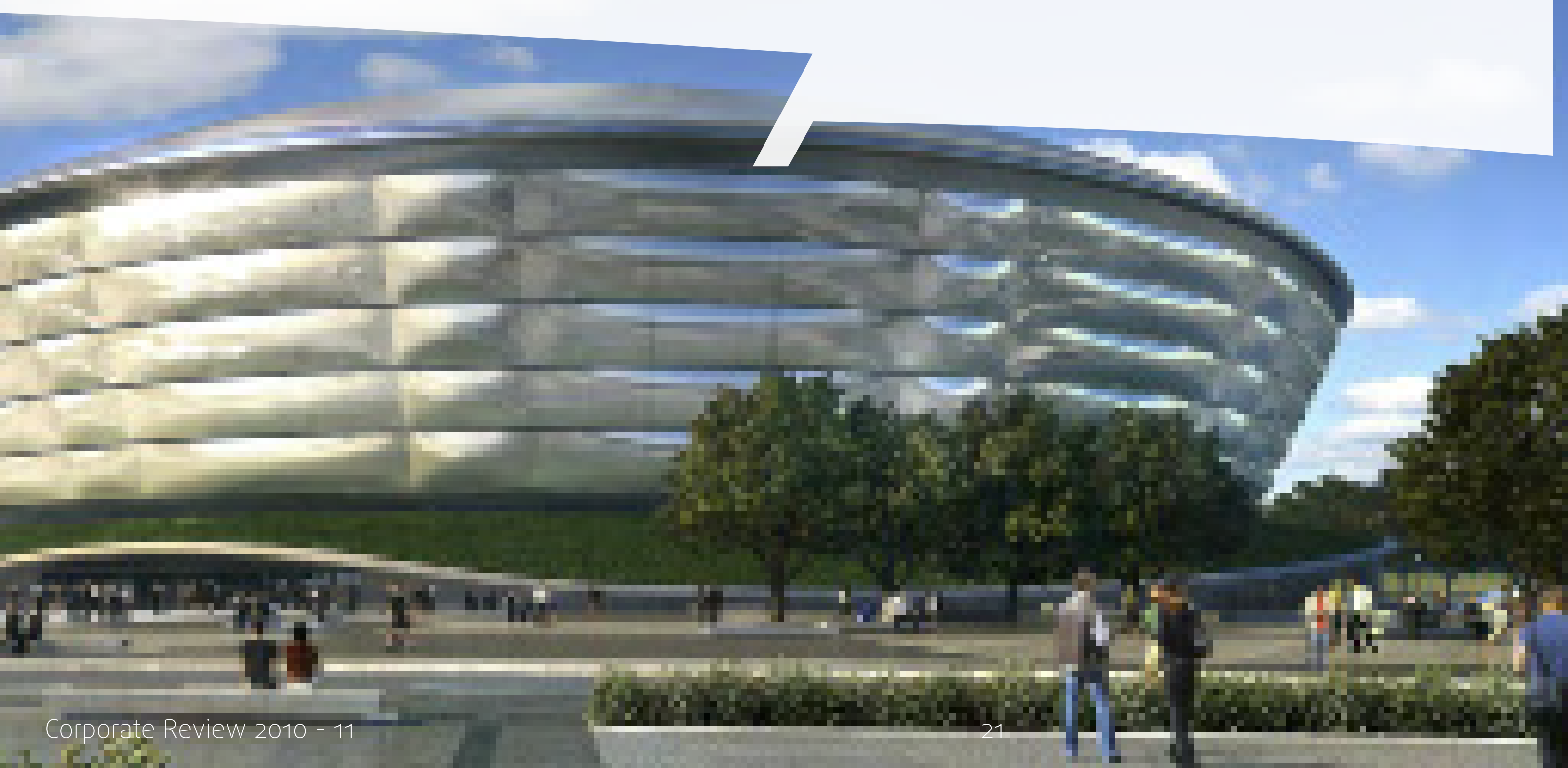
Conference turnover increased by 43% with the number of conferences increasing from 16 to 23. Corporate meetings in the year decreased from 36 to 29. Twelve International Conferences were held in the venue and the SECC continued to maintain its reputation in the UK conference market as a leading preferred venue. The exhibitions market remained difficult during the year with a 2% reduction in turnover and the number of events held. It is a market which will continue to remain fragile as the economy recovers and discretionary consumer expenditure remains thin.

The concert and events sector increased turnover and margin by 4% over the year. The number and range of events held increased with content including musical and stage productions, comedy, live music and the first venue pantomime presentation, Aladdin. The increase in conference turnover over the year restricted further growth in the concerts and events sector due to a lack of available space.

The lack of space available for competing sectors is a problem that the business has had to deal with over a number of years and this will continue until the opening of The Scottish Hydro Arena in 2013. Box Office turnover fell by 10% in the year. This was largely due to a reduced number of external events, in particular a quiet summer of stadium concerts and the tenancy squeeze on our own business sectors which impacted the growth of concerts and events.
QD Events continued to operate its own shows and added 2 shows to its portfolio during the year through a show launch and a show purchase. Space availability, especially in Hall 4 the largest and most popular hall, continues to be the bottleneck to further expansion. This will realistically remain until the new Scottish Hydro Arena is delivered and until then the company will focus on space and revenue maximisation of all halls as well as capitalising on other commercial revenue streams.

The Group business model will undergo a number of changes as the campus evolves over the next few years and as the full impact of the Arena business projects and funding plans permeate through the financial statements. Car parking revenue will be lost, interest will move from a receivable to a payable position as cash is committed to the Arena and bank debt is also taken on. Initially the fixed costs of the new Arena after and following any impairment review will be absorbed by the business before the upside of anticipated trading receipts are realised. All of these impacts have been incorporated into future profit, cash and balance sheet projections. The business objectives over the next few years will be aimed at meeting and exceeding the projections and expectations to ensure that the Arena project delivers the benefits anticipated and that the Group continues to take its past successes into the future as a stronger and more successful campus and business.

Interest and Investment income during the year increased by 18%. The income from lower interest rates whilst ahead of the previous year is still lower than the group earned in previous years when deposit rates were healthier.



Scottish Exhibition Centre Ltd
Group Profit and Loss Account

Year end 31 March 2011

	2011 £	2010 £
Group Turnover	18,231,613	16,611,534
Operating costs	18,052,103	16,591,548
Group Operating Profit	179,510	19,986
(Loss) / Gain on sale of fixed assets	(2,964)	23,460
Gain / (Loss) on sale of investments	101,051	–
	277,597	43,446
Interest receivable	43,446	109,106
Investable Income	116,385	89,654
Profit On Ordinary Activities Before Taxation	502,164	227,746
Tax on profit on ordinary activities	64,115	121,274
Profit On Ordinary Activities Before Taxation	438,049	106,472
Retained Profit For The Year	438,049	106,472
Attributable to:		
Parent company	884,099	320,173
Subsidiaries	(446,050)	(213,701)
	438,049	106,472

Group Statement of Total
Recognised Gains and Losses

Year end 31 March 2011

	2011 £	2010 £
Profit For The Financial Year	438,049	106,472
Unrealised surplus on revaluation of investments	–	980,268
Total Recognised Gains Relating To The Year	438,049	1,086,740

Scottish Exhibition Centre Ltd
Group Balance Sheet

	Year end 31 March 2011	
	2011	2010
	£	£
Fixed Assets		
Tangible Fixed Assets	41,609,079	34,111,152
Investments	–	4,584,356
	41,609,079	38,695,508
Current Assets		
Debtors	14,496,150	9,609,584
Cash at bank and in hand	26,435,468	26,929,983
	40,931,618	36,539,567
Creditors		
Amounts falling due within one year	16,678,618	14,508,675
Net Current Assets	24,253,000	22,030,892
Total Assets Less Current Liabilities	65,862,079	60,726,400
Provision For Liabilities And Charges	1,579,419	1,707,400
Accruals And Deferred Income		
Deferred grants	33,703,137	28,877,526
	30,579,523	30,141,474
Capital And Reserves		
Equity share capital	21,900,000	21,900,000
Capital Redemption Reserve	2,750,000	2,750,000
Revaluation reserve	–	222,692
Profit and loss account	5,929,523	5,268,782
Total Shareholders' Funds	30,579,523	30,141,474

Group Cash Flow Statement

	Year end 31 March 2011	
	2011	2010
	£	£
Net cash inflow/(outflow) from operating activities	1,677,215	(1,738,795)
Returns on investment and servicing of finance	224,567	184,300
Corporation tax paid	(79,725)	(739,905)
Capital expenditure	(3,810,365)	14,107,043
Proceeds from sales investment	1,493,793	–
(Decrease) / Increase in cash	(494,515)	11,812,643
Net funds at 1 April	26,929,983	15,117,340
Net funds at 31 March	26,435,468	26,929,983

Scottish Exhibition +
Conference Centre

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SECC
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