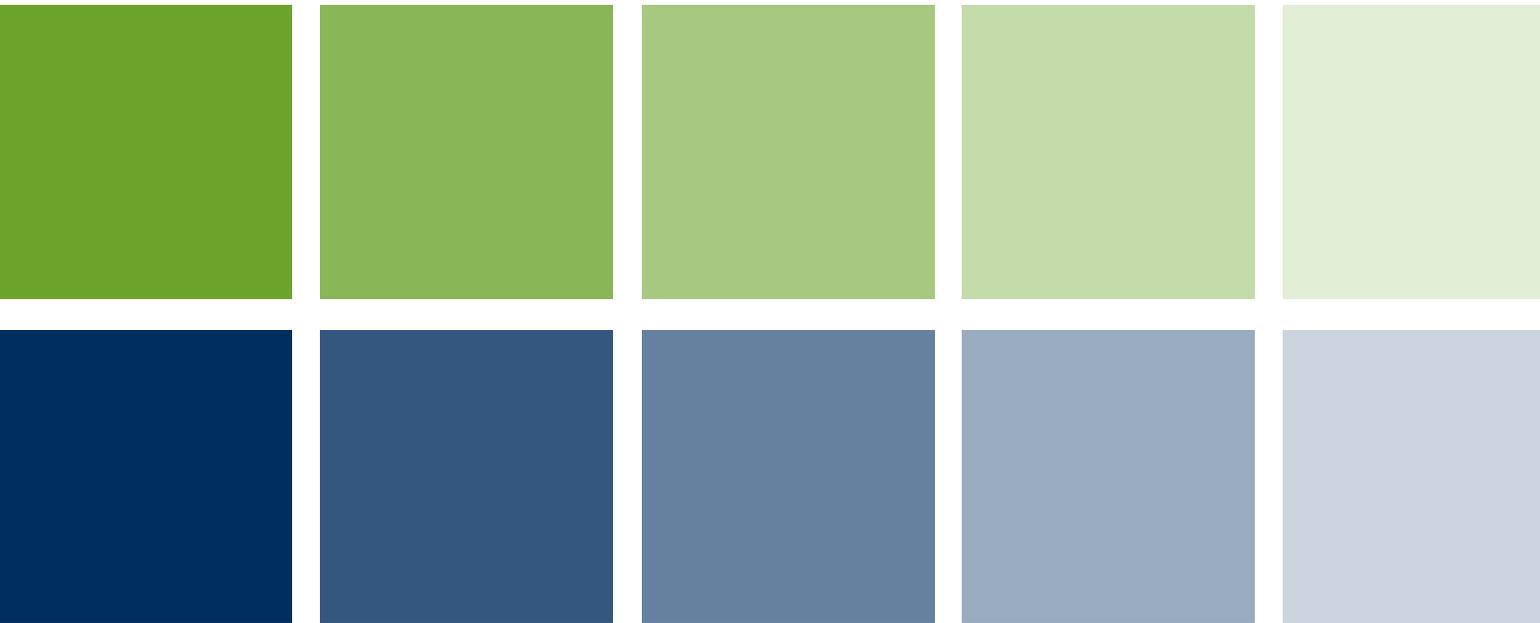




Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

Annual report and accounts 2009/10



Ambitious for Scotland

Highlands and Islands Enterprise annual report and accounts 2009/10

ENTERPRISE AND NEW TOWNS (SCOTLAND) ACT 1990

Accounts, of Highlands and Islands Enterprise prepared pursuant to section 30(1) of the Enterprise and New Towns (Scotland) Act 1990, for the year ended 31 March 2010 together with the independent auditor's report to the members of Highlands and Islands Enterprise, the Scottish Parliament and the Auditor General for Scotland.

The Accounting Officer authorised these financial statements for issue on 8th October 2010.

Contents

Management commentary	2
Remuneration report	10
Statement on internal control	14
Independent auditor's report to the members of Highlands and Islands Enterprise, the Auditor General for Scotland and the Scottish Parliament	16
Group net expenditure statement	18
Group and HIE statement of financial position	19
Group statement of cash flows	20
Group statement of changes in taxpayers' equity	21
HIE statement of changes in taxpayers' equity	22
Notes to the accounts	23
Accounts direction	63

Management commentary

Background and principal activities

Statutory background

Highlands and Islands Enterprise (HIE) was established in 1991 in accordance with the provisions of the Enterprise and New Towns (Scotland) Act 1990.

Strategic aims

Ministerial reforms announced in September 2007 followed by the Government Economic Strategy (GES) published in November 2007 signalled significant change in the role and focus of HIE towards supporting high growth businesses and sectors; creating the infrastructure and conditions to improve regional competitiveness; and strengthening communities, especially in the fragile parts of the region. The aim is to create a more successful region within Scotland with opportunities for all through increased sustainable growth.

Principal activities

HIE was established for the purpose of preparing, concerting, promoting, assisting and undertaking measures for the economic and community development of the Highlands and Islands, improving the region's competitiveness, assisting people to establish themselves in business and communities and furthering improvement of the environment in the Highlands and Islands.

Board membership

Mr W Roe CBE,
Chair

Mr J R A Cumming CBE,
Chief Executive (resigned 14/03/10)

Mr A Mackenzie

Prof M Bownes OBE

Prof L Crerar

Mr J Royan OBE

Mr C Spence

Mr S Thomson

Statement of accountable officer's responsibilities

Under section 30(1) of the Enterprise and New Towns (Scotland) Act 1990 the Scottish Ministers have directed Highlands and Islands Enterprise to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Highlands and Islands Enterprise and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the accountable officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the financial statements and
- prepare the financial statements on a going concern basis.

The Principal Accountable Officer for the Scottish Government has designated the Chief Executive as the Accountable Officer of Highlands and Islands Enterprise. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding Highlands and Islands Enterprise assets, are set out in the Memorandum to Accountable Officers of other Public Bodies on appointment and as set out in the Scottish Public Finance Manual.

Financial performance

Results

The results for the year to 31 March 2010 are contained in the attached accounts which have been prepared in accordance with section 30 (1) of the Enterprise and New Towns (Scotland) Act 1990 and are in the form directed by Scottish Ministers.

Sources of finance

Highlands and Islands Enterprise is mainly financed by Scottish Ministers through the Scottish Government Business, Enterprise and Energy Directorate. In addition, it has receipts in the form of rents, interest, loan repayments, European Union funding and proceeds received from the sale of assets. The funding provision, other income and expenditure for the year ended 31 March 2010 was as follows:

Sources of Finance 2009-2010	Provision £m	Actual £m
Funding		
Grant-in-aid ¹	58.7	58.7
Non-cash	14.0	12.8
	<hr/> 72.7	<hr/> 71.5
Income from other sources		
European Union / Big Lottery	4.5	4.1
Business receipts	7.3	8.1
	<hr/> 84.5	<hr/> 83.7
Expenditure		
Operations	62.3	56.7
Operations - virement*	4.5	4.5
Management and Administration **	17.7	22.5
	<hr/> 84.5	<hr/> 83.7

Resource budget outturn	Provision £m	Actual £m
Resource consumption	55.4	46.8
Depreciation, provisions, revaluation deficits	7.7	6.5
Cost of capital	1.8	1.7
Virement	4.5	4.5
	<hr/> 69.4	<hr/> 59.5
Capital expenditure	3.3	12.0
Total	<hr/> 72.7	<hr/> 71.5

¹Grant-in-Aid is stated net of £2.6m transferred in respect of the Business Gateway function

* The Resource budget funding for 2009/10 comprised grant-in-aid provision of £58.723m and a non-cash allocation of £13.992m. This initial provision of non-cash of £13.992m was reduced by a budget virement of £4.5m to the Scottish Government during the year.

** Management and Administration cost includes £3.8m for a Voluntary Severance Scheme completed by 31/03/10.

Financial performance (continued)

Financial commentary

2009-2010 summary of financial results	Provision £m	Result £m
Grant-in-aid	58.7	58.7
Business income	7.3	8.1
Direct capital spend	3.3	12.0
Indirect capital spend	4.9	5.1
RAB out-turn (net resource)	72.7	71.5

Highlands and Islands Enterprise balanced its budget for the year and total spend on a resource accounting and budgeting (RAB) basis was £1.2m under the provision set by the Scottish Government. All available grant-in-aid (GIA) was drawn down for the year. Direct capital spend was above expectations reflecting opportunities for economic growth through capital developments in the Highlands and Islands.

The group pension liability has decreased from £24.0 million to £20.5 million in 2009/10. There was a reduction in the liability arising in the Highlands and Islands Enterprise Superannuation Scheme of £6.3 million. This was due to improving market conditions and the pension recovery plan lump-sum contribution of £2.5m during the year.

A resource budget for 2010-11 of £68.5m awarded by the Scottish Government comprises grant-in-aid and 'non-cash' budget provision. This will enable the agency to continue for the foreseeable future.

Public information

During the year a review of the CairnGorm Funicular railway was prepared by Audit Scotland and presented under S.23 of the Public Finance and Accountability (Scotland) Act 2000 to the Scottish Parliament Public Audit Committee.

Post balance sheet events

No post balance sheet events have occurred.

Non-current assets

During 2009/10, Highlands and Islands Enterprise spent £9.7 million on site development and construction of factory buildings, plant and equipment.

At 31 March 2010 the net book value of HIE's property, plant and equipment was £49.0 million. Commercial properties were valued at market value. Financial assets amounted to £2.5 million.

European Union

In addition to the funding from grant-in-aid, funds amounting to £3.7 million were received from the European Union in support of the operations of Highlands and Islands Enterprise.

Payment to creditors

HIE observes the Government's policy for prompt payment and is committed to paying suppliers within 10 days of receipt of a valid invoice, where no other contract timetable applies. The agency's performance statistics can be found in the Customer Service section of the Management Commentary.

Key performance indicators

Transformational projects

HIE's portfolio of transformational projects at the start of 2009-10 included 11 key projects and initiatives under implementation with a further 15 at the pipeline stage*. Investments of £10.5m in these projects during the course of the year has helped create new infrastructure that will see the Highlands and Islands increase the contribution it makes to the Scottish economy in future years.

Growth measures

High growth businesses

Growth measure	Target	Actual	Actual as a %
No of account managed businesses with growth plans	150	136	91%
Cumulative total of account managed businesses	250	238	95%
Added value to national growth through account managed businesses	£85m	£75m	88%
Private Sector Earnings Index	125	129	103%

These out-turns demonstrate considerable progress made working with businesses right across the Highlands and Islands, particularly given the challenging economic conditions experienced over the past year.

Strengthening Communities

Growth measure	Target	Actual	Actual as a %
No of account managed social enterprises with growth plans	40	35	88%
Cumulative total of account managed social enterprises	80	73	91%
Increase in turnover in the social economy	£2m	£2.33m	117%
Account managed communities with growth plans	18	20	111%

Continued growth in the social economy will play an important role in mitigating the impacts of changing economic conditions in many communities across the region.

Future developments

Businesses and community groups across the Highlands and Islands are finding the current economic climate challenging but many are also taking advantage of the opportunities which are arising.

HIE will also continue to invest in projects and sectors which have the potential to transform local economies and promote sustainable economic growth throughout the region.

* Further information on the key measures of performance is provided in the HIE operating plan which can be located at <http://www.hie.co.uk/operatingplan>

Corporate governance

Overview

Highlands and Islands Enterprise has procedures in place ensuring that the highest standards of corporate governance are maintained at all times. In 2009/10 the following procedures were applied:

Risk assessment

Highlands and Islands Enterprise, in line with best practice, has robust procedures in place for the systematic identification and management of risk. A risk management strategy highlights that effective risk management is essential to the achievement of HIE's objectives. Implementation of the strategy includes an ongoing assessment of risk by management and the assessment of risk at individual project level. Where appropriate, action plans are put in place to address significant risks. The Chief Executive, as accountable officer, is able to report that these procedures have been complied with throughout the year.

The Board

At 31 March 2010, the Board of Highlands and Islands Enterprise comprised the Chair, six non-executive members and one executive member who is the Chief Executive. Board members are appointed by Scottish Ministers and their remuneration is determined by the Scottish Government.

The Board meets at least six times a year. The Board has corporate responsibility for ensuring that HIE fulfils its statutory duties and the aims and objectives set by Scottish Ministers and for promoting the efficient and effective use of staff and other resources by HIE in accordance with the principles of best value as set out in the Scottish Public Finance Manual. The Board has corporate responsibility for the operating activities of the agency. Individual board members act in accordance with their wider responsibility under a code of conduct and in the best interests of HIE.

As a board member, the Chief Executive also has a pivotal role in assisting the board to develop policies and priorities and in ensuring that they are implemented effectively.

Audit Committee

The Audit Committee represents the agency and is composed of four non executive HIE board members, who are appointed by the HIE board. The Chief Executive, in his role as accountable officer, a representative of the Scottish Government departmental accountable officer, Audit Scotland, the Director of Finance and Corporate Services, having specific responsibility for finance, and the Head of Internal Audit normally attend the meetings of the committee which are held no fewer than four times per year.

The members of the Audit Committee during the year were:

Mr A Mackenzie (chair)
Prof L Crerar
Mr J Royan
Mr S Thomson

The combined code

While the remuneration and the service contracts of Board members are set by the Scottish Government, the recommendations of the combined code have been applied in so far as they are appropriate to Highlands and Islands Enterprise. Full details of all elements in the remuneration package of each Board member are disclosed in the remuneration report.

Conflicts of interest procedures

HIE operates strict and comprehensive procedures to deal with potential conflicts of interest. These include HIE holding, and updating at least annually, registers of interests covering not only Board members/directors but also members of staff. These registers are available to any member of the public who wishes to examine them. Interests which must be registered, in terms of the name and nature of the organisation in which the interest is held, include: remuneration, related undertakings, contracts, houses, land and buildings, shares and securities, non-financial interests, gifts and hospitality.

Whenever a Board member/director or member of staff has an interest in an application for assistance, they are required to declare the interest and thereafter to take no part in the investigation, processing or approval of the case. Such declarations by Board members/directors are recorded in the minutes of the appropriate Board meetings.

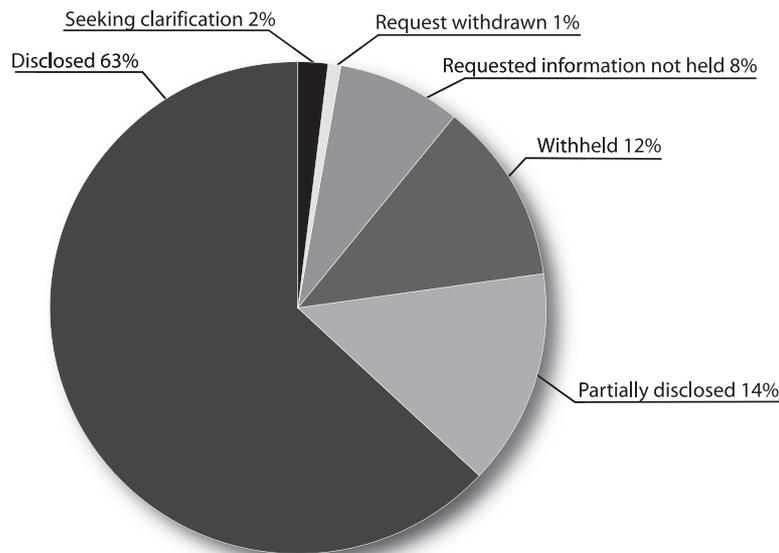
Public interest reporting

Freedom of Information

As a publicly-funded organisation, HIE is committed to full compliance with the Freedom of Information (Scotland) Act 2000.

In 2009-10, HIE received 156 Freedom of Information (FOI) requests.

The following chart shows the percentage of FOI enquiries where the requested information was fully disclosed, withheld, partially disclosed or no information was held:



The average time to respond fully and close a request for information was 12 working days. In four cases, the time limit for a response was extended beyond the normal 20-day period. One enquirer requested a review. No appeals were submitted to the office of the Scottish Information Commissioner.

HIE website's Freedom of Information section - www.hie.co.uk/freedom-of-information - publishes FOI-related questions and answers.

Customer service

We are committed to continually improving our service and welcome comments and suggestions. We take all complaints seriously and have an effective, easy to use complaints procedure.

From 1 April 2009 to 31 March 2010, seven formal complaints were made against HIE. These fell into three categories:

- Displacement 1
- Procurement 2
- Miscellaneous 4

Of these, four proceeded to stage two of the procedure.

When it is not possible to solve a complaint internally, a complainant is entitled under the terms of the Scottish Public Services Ombudsman (SPSO) Act 2002 to have their complaint considered by the SPSO. No complaints during the year proceeded to the SPSO.

The following table shows HIE's performance in meeting standards of service:

Standard	Performance 2009/2010	Performance 2008/2009
Process applications for assistance up to £25,000 within an average of 12 working days	14.24	15.20 days
Process applications for assistance for £25,001-£100,000 within an average of 30 working days	18.95	24.20 days
In line with government policy, aim to pay all invoices promptly - target 10 days Note: excludes items under dispute or where other terms are agreed with a supplier	87%	83%

Public interest reporting (continued)

Diversity and equality

The concept of equality, which aims to provide the opportunities and incentives for all to contribute towards, and share in Scotland's success, is a key part of the Government Economic Strategy.

HIE firmly supports this principle. We believe that a strategic focus on equality and diversity in service development and delivery and in employment practices helps us to achieve our objective of building sustainable economic growth in all parts of the Highlands and Islands.

In a changing economic, legislative and demographic environment, the case for removing barriers and for promoting equality and diversity has never been clearer. Our focus is across a broad range of equality strands - race, disability, gender, sexual orientation, religion or belief, and age - as well as a focus on Gaelic, on our geographically dispersed or peripheral communities and on those who face multiple barriers to being part of our economy.

HIE is committed to ensuring continuous improvement to drive our equality agenda forward in anticipation of the Equality Act 2010. This will ensure that equality and diversity are at the heart of the development, implementation and delivery of our services. This includes procurement, complementing our public duties and the associated equality scheme action plan.

The HIE equality action plan focuses on mainstreaming equality and diversity activity linked to our operating plan. It will assist us in recruiting, supporting and motivating our employees, as well as ensuring public access to information and services. More information is available on the HIE website at www.hie.co.uk/equality-and-diversity. In 2009/10, five employees working for HIE declared a disability.

Employee involvement and communication

A Selective Voluntary Severance programme completed in March 2010 saw the departure of 53 members of staff, approximately 15% of our workforce. The scheme offered staff up to the age of 50 a severance payment based on their age, length of service and contractual terms or minimum terms provided in legislation. The scheme also offered staff aged 50 or over an enhanced early retirement package. The cost of the scheme was £3.77m with a payback period of 1.9 years.

Supporting knowledge sharing and ensuring opportunities for collaborative working across the organisation have been central to how we develop our staff. Over 100 HIE staff have participated in programmes to enhance account management skills, including relationship management, business development, project appraisal, project management and finance.

The new version of HIE's leadership programme, *ACHIEVE 2* Inspire, was introduced to provide a tailored and integrated approach to leadership and change management. Also launched was HIE's emerging leaders programme which put over 20 of HIE's high-potential staff through a rigorous assessment and development programme. Many of HIE's *ACHIEVE* leadership programme graduates have been engaged as in-house coaches and as trained mentors for our emerging leaders.

The Joint Negotiating Committee (JNC) is the formal mechanism for staff consultation and negotiation between management and the recognised trade unions on pay and terms and conditions of service. Staff from across HIE have also been involved and consulted on a range of organisational issues, from changes to staff bonus arrangements and the HIE intranet and website, to how we address gender inequality through the 'Close the Gap' initiative.

Health and wellbeing continues to be an important part of corporate culture. In November 2009, local teams from across HIE received silver and gold Healthy Working Lives awards.

In March 2010, HIE was successfully re-accredited against the Investors in People (IIP) standard. This recognises the many aspects of good business and people management practices in place within HIE, alongside a clear desire to continue to improve the way in which we operate and engage with our staff.

Sickness absence

The attendance record for HIE employees for the year to 31 March 2010 (2009) was 1,430 (1,685) days sick leave out of a total of 73,593 (70,194) possible working days representing a lost time through sickness rate of 1.9% (2.4%).

Data loss

There were no reported instances of data loss during the financial year.

Sustainability

The central thrust of HIE's efforts to develop a low carbon economy in the Highlands and Islands involves supporting the growth of the renewable energy sector.

From wind tower manufacture in Argyll and the Outer Hebrides to fostering the burgeoning marine renewables sector in Orkney, HIE is delivering an ambitious programme of investments which will transform the structure of the region's economy.

In addition to these large scale developments, we work in partnership with agencies such as the Carbon Trust to help businesses and community organisations to lower their carbon footprint - and their running costs - in a way that leads to increased competitiveness and profitability.

HIE as an agency of the Scottish Government has also committed to reducing its own carbon footprint. In June 2010, the organisation signed the Highland Climate Change Declaration, committing to reduce emissions by three per cent a year. Further, work is in hand to ensure that HIE defines and regularly updates its own carbon footprint during 2010-11 and be able to meet the minimum report standards being set within the UK public sector. This will include information on greenhouse gas emissions; waste minimisation and management; finite resource consumption; biodiversity action planning and sustainable procurement.

Retirement benefits

All staff with contracts of three months or more are eligible and automatically join the Highlands and Islands Enterprise Superannuation Scheme unless they opt out. Further details are provided in the Remuneration Report and in notes 1 and 19 to the accounts.

Appointment of auditors

The accounts of Highlands and Islands Enterprise are audited by auditors appointed by the Auditor General for Scotland. The appointed auditor for the year ended 31 March 2010 was Lorna Meahan, Assistant Director of Audit, Audit Scotland. Fees chargeable for audit services provided by Audit Scotland amounted to £147,400 (2009 - £144,350).

A L Paterson

Highlands and Islands Enterprise
4th October 2010

Remuneration Report

Section 1

General information

Highlands and Islands Enterprise's sponsoring body, the Scottish Government, approves changes to Highlands and Islands Enterprise's staff terms and conditions, including pay. Highlands and Islands Enterprise's pay structure covers all employees of HIE and aims to address organisational challenges such as recruitment and retention and organisational change. This ensures continuation of the modernisation process, which commenced in 2002 with the introduction of a new pay and grading structure. This structure aims to provide pay progression based on inflation rate changes, plus an element of performance-related progression linked to Highlands and Islands Enterprise's performance management system, introduced in April 2004. HIE's auditors are required to report on the information contained in the financial sections of this report.

Remuneration committee

Highlands and Islands Enterprise decided to establish a remuneration committee with effect from April 2008. The role of the Remuneration Committee is as follows:

- To review annually and agree the broad policy framework for the remuneration of the HIE Chief Executive and HIE Group Directors;
- To agree the design of and determine targets for a performance related bonus scheme for HIE's Chief Executive;
- To monitor and evaluate the performance, on the advice of the Chief Executive, of the HIE Group Directors and determine the amount or percentage of their bonus remuneration;
- To approve total payments made under such a scheme;
- To consider issues of succession planning in relation to the senior management of the organisation.
- To inform the pay remit submissions to the Scottish Government.

Committee membership

Mr J Royan OBE (Chair)

Mr W Roe CBE

Prof M Bownes OBE

Section 2

Information subject to review and report by audit

Remuneration of Board members

Board members of Highlands and Islands Enterprise are appointed by Scottish Ministers normally for a period of three years. Under certain circumstances Board members may be eligible for re-appointment for a second term. Their remuneration is set by the Scottish Government and is normally not pensionable. No benefits in kind were made to members of the board during the year ended 31 March 2010. The remuneration of HIE Board members for the year ended 31 March 2010 was as follows:

	2010 £	2009 £
W Roe CBE (Chair)	48,512	48,512
A Mackenzie	10,065	10,065
D Ratter (term ended 30 September 2008)	-	5,032
Prof M Bownes OBE	10,065	10,065
Prof L Crerar	10,065	10,065
J Royan OBE	10,065	10,065
S Thomson	10,065	5,032
C Spence	10,065	5,032

The above figures represent emoluments earned as Board members during the relevant financial year. The figure for Mr Roe includes £304 (2009 - £608) of travel expenses which have been subject to tax and national insurance. The cost to HIE for contributions to the pension fund for Mr Roe was £11,928 (2009 - £11,928) while Mr Roe contributed £719 being 1.5% of his remuneration as Chair of HIE.

Highlands and Islands Enterprise is also required to meet the pension benefits due to former full-time chairmen and board members of Highlands and Islands Development Board who were not members of the superannuation scheme. During the year ended 31 March 2010 £87,712 (2009 - £82,277) was paid to these former members.

Remuneration of Chief Executive

Mr JRA Cumming resigned as Chief Executive on 14th March 2010. As from 10th August 2009 Mr A B Brady took on the role of Acting Chief Executive for the agency and continued in that role at 31st March 2010.

The former Chief Executive's contract of employment was signed on 1 November 2000. This was a permanent contract with a 12-month notice period. There are no early termination payment clauses within the contract. No benefits in kind were made to the Chief Executive.

The remuneration of Mr JRA Cumming, former Chief Executive, for the year ended 31 March 2010 was as follows:

	2010	2009
	£	£
Salary (to 14 March 2010)	104,210	100,858
Performance-related bonus (paid in respect of the previous financial year)	-	10,086
Pension contributions	25,948	25,113
	130,158	136,057

The Chief Executive is an ordinary member of the Highlands and Islands Enterprise Superannuation Scheme. Under the terms of the former Chief Executive's contract of employment an annual bonus, subject to performance review, of up to 10 per cent (2009 - 10 per cent) of basic salary was payable. The annual review, conducted by the chair and subject to confirmation by the Scottish

Government, measured the Chief Executive's performance during the financial year against a series of targets set at the beginning of the year and relating to the performance of the HIE agency as a whole. Mr JRA Cumming forfeited his right to consideration for a bonus for 2009-10 resigning as Chief Executive on 14th March 2010.

Remuneration of other members of the HIE management team

The contracts of members of the HIE management team are permanent and have a three-month notice period. There are no early termination payment clauses within these contracts. No benefits in kind were made to senior members of the HIE management team. As noted above Mr A B Brady became Acting Chief Executive from 10 August 2009. All

members of the HIE management team are ordinary members of the Highland and Islands Enterprise Superannuation Scheme. As ordinary members they contribute 1.5% of pensionable salary and HIE contributes 24.9% of the employees pensionable salary. The scheme is a final salary scheme that provides benefits at a normal retirement age of 60.

Further information about HIE's pension fund can be found in the Notes to the accounts (note 19).

The remuneration of members of the HIE management team for the year ended 31 March 2010 was as follows:

	2009-10				2008-09			
	Salary	Bonus	Other	Total	Salary	Bonus	Other	Total
	£	£	£	£	£	£	£	£
A B Brady	90,131	-	-	90,131	76,215	-	-	76,215
F C Duthie	76,834	2,229	-	79,063	74,287	3,461	-	77,748
D J Yule*	76,834	2,559	42,645	122,038	73,120	3,461	1,904	78,485
A L Paterson	76,753	2,567	-	79,320	73,011	3,123	-	76,134
J A Watt	72,712	-	-	72,712	68,681	2,958	-	71,639

Note: bonus payments are performance related, non-consolidated and payable at up to 5% of salary and disclosed on a 'paid' basis for performance over the previous financial year. During the year to 31 March 2010 Mr A B Brady and Mr J A Watt opted not to be considered for a bonus in respect of performance for 2008-09. Other payments include excess mileage payments on permanent re-location. HIE does not operate a car allowance scheme.

*Additional payments including those from a voluntary severance scheme were included above as follows:

	SVS	Excess miles	Total
	£	£	£
D J Yule (resigned 31 March 2010)	41,850	795	42,645

In addition to the above, a lump sum contribution to HIE's pension fund of £263,100 was made as a result of the early retirement under the severance scheme of Mr D J Yule. SVS = selective voluntary severance.

Retirement benefits of members of HIE management team:

	Accrued pension at age 60 as at 31/3/10 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/10	CETV at 31/3/09	Real increase in CETV
	Bandings of £5,000	Bandings of £2,500	£'000	£'000	£'000
J R A Cumming	45-50 Lump sum 145-150	2.5-5 Lump sum 7.5-10	1,085	876	207
A B Brady	35-40 Lump sum 110-115	5-7.5 Lump sum 17.5-20	858	630	227
F C Duthie	15-20 Lump sum 45-50	0-2.5 Lump sum 2.5-5	303	239	62
A L Paterson	5-10 Lump sum 20-25	0-2.5 Lump sum 2.5-5	120	84	35
J A Watt	20-25 Lump sum 70-75	0-2.5 Lump sum 5-7.5	571	461	109
D J Yule	30-35 Lump sum 60-65	7.5-10 Lump sum 30-32.5	558	171	386

The Chief Executive and senior members of the HIE management team are members of the Highlands and Islands Enterprise Superannuation Scheme. This scheme provides benefits based on final pensionable salary. The assets of the scheme are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the scheme's trustees.

Employee contributions are currently set at a rate of 1.5 per cent of pensionable earnings and HIE contributes 24.9% of the employees pensionable salary. The funding sources to the pension scheme were reviewed during 2009/10. Highlands and Islands Enterprise meets the contributions that are necessary to meet the full balance of the cost of the benefits provided by the scheme as well as the costs of running the scheme.

Benefits accrue at the rate of one-eightieth of pensionable salary for each year of service subject to a maximum of 40 years. In addition, a lump sum equivalent to three years' pension is payable on retirement.

Section 3 - Other information

Retirement Benefits - Cash equivalent transfer values

A cash-equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member to a particular point in time. The benefits valued are the member's benefits and any contingent spouses 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 arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in the 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.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It includes 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 but does not include the increase in accrued pension due to inflation.

A L Paterson
Highlands and Islands Enterprise
4th October 2010

Statement on internal control

- 1 As the Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Highlands and Islands Enterprise's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.
 - ensuring that Highlands and Islands Enterprise complies with any statutory or administrative requirements for the use of public funds and, in so doing, satisfying itself that Highlands and Islands Enterprise operates within the delegated authorities agreed with the Scottish Government Business Directorate;
- 2 From 1 April 2009 to 9th August 2009 Sandy Cumming, the former Chief Executive was the appointed Accountable Officer for the organisation. Sandy Brady took over the role of Acting Accountable Officer from 10 August 2009 until 1 August 2010, when I commenced my appointment as Accountable Officer.
 - ensuring that high standards of corporate governance are observed at all times;
 - ensuring that its aims and objectives are explained to and understood by staff and
 - overseeing the delivery of planned results by monitoring performance against agreed corporate objectives, measures and targets on both an in-year and longer-term basis.
- 3 The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.
 - f) Highlands and Islands Enterprise has a robust risk management strategy in place. This strategy highlights that effective risk management is essential to the achievement of the agency objectives. Implementation of this strategy includes:
 - the assessment of risk by management at least quarterly;
 - the maintenance of organisation-wide risk registers;
 - the maintenance of a high level risk register;
 - assessment of risk at individual project level;
 - independent project reviews for high risk projects;
 - action plans with clear accountability and timescales to address significant risks;
- 4 The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts and accords with guidance from the Scottish Government.
 - c) An Audit Committee, chaired by a non-executive Board member, which reviews the effectiveness of the internal control system. The committee met six times in the past year. Minutes of the Audit Committee are provided to the full Board for information.
 - d) A Health and Safety Committee, chaired by a non-executive Board member, exists to review the organisation's compliance with health and safety legislation. This committee met twice in the past year. Minutes of the Health and Safety Committee are provided to the full board for information. The operation of this committee was reviewed during 2009/10 and new arrangements which include the creation of an executive Health and Safety Committee will be introduced during 2010/11.
 - e) A Remuneration Committee, chaired by a non-executive member, exists to review the reward arrangements of HIE's Chief Executive and the HIE Group Directors. This committee met twice in the past year. Minutes of the Remuneration Committee are provided to the full Board for information.
 - g) In addition:
 - the Highlands and Islands Enterprise Board and the Scottish Government are made aware of the key risks on at least a quarterly basis;
 - revised risk management arrangements were introduced as part of development of a new corporate reporting framework
 - corporate governance workshops were held;
 - setting targets to measure financial and other business objectives;
 - regular consideration of resource accounting and budgeting (RAB) impacts and
 - a corporate reporting framework has been developed and was implemented during 2009/10
- 5 As the Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established for HIE:
 - a) A Management Team which normally meets weekly. Major executive decisions are taken by myself in consultation with that team.
 - b) A Board which normally meets six times a year. The Board is comprised of a part-time Chairman, up to 6 non-executive members and the Accountable Officer. The Board is responsible for the overall direction of the organisation with in the strategic and funding framework set by Scottish Ministers. It has a general corporate responsibility for:
 - ensuring that Highlands and Islands Enterprise complies with any statutory or administrative requirements for the use of public funds and, in so doing, satisfying itself that Highlands and Islands Enterprise operates within the delegated authorities agreed with the Scottish Government Business Directorate;

- 6 Highlands and Islands Enterprise has an Internal Audit and Compliance team which is independent of any operational group. The Head of Internal Audit and Compliance reports directly to me as the Accountable Officer.
- a) The work of the internal audit and compliance team is informed by an analysis of the risk to which HIE is exposed and annual internal audit plans are based on this analysis. The plan is endorsed by the HIE Audit Committee.
 - b) The Head of Internal Audit and Compliance provides me with regular reports on internal audit activity and provides me with an annual report which includes the head of internal audit and compliance's independent opinion on the adequacy and effectiveness of the system of internal control together with recommendations for improvement.
 - c) The Internal Audit and Compliance team supports the agency's continuous improvement activities through the identification of action points arising from ongoing audit activity. These actions cover all aspects of HIE operations.
 - d) The internal audit plan includes cyclical reviews of the implementation of HIE risk management strategy.
- 7 Recent internal audit reviews highlighted the following for improvement in the internal control environment:
- a) Information management reviews highlighted the requirement for a strategic approach to addressing the information and data handling issues being experienced by HIE which are similar to those being experienced across the public sector. I have made arrangements for this to be taken forward during 2010/11 as part of HIE's system development and continuous improvement activities.
- 8 My review of the effectiveness of the system of internal control is informed by the work of the internal auditors; the Audit Committee, which oversees the work of the Internal Audit and Compliance team; the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework and comments made by the external auditors in their management letters and other reports. Additionally, I have identified the following key risks for HIE:
- the achievement of HIE's notional resource budget remains an ongoing challenge as it is dependent on market factors outwith the control of HIE. This challenge increased with the implementation of International Financial Reporting Standards and I remain concerned about the impact on HIE's economic and community development function.
 - following the HIE Board decision in December 2009 that HIE would need to maintain ownership of CairnGorm Mountain Limited in the short to medium term, and to support the operating company in delivery of a revenue enhanced operating arrangement during this period, there is a significant ongoing challenge for HIE to manage the implications of having a trading subsidiary operating in a high risk environment.

A L Paterson
Accountable Officer
4th October 2010

Independent auditor's report

Independent auditor's report to the members of Highlands and Islands Enterprise, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Highlands and Islands Enterprise for the year ended 31 March 2010 under the Enterprise and New Towns (Scotland) Act 1990. These comprise the Net Expenditure Statement, the Statements of Financial Position, the Statement of Cash Flow, the Statements of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board, Accountable Officer and Auditor

The Board and Accountable Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Accountable Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers. I report to you whether, in my opinion, the information which comprises the Management Commentary included in the Annual Report, is consistent with the financial statements. I also report to you whether in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

In addition, I report to you if, in my opinion, the body has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the body's compliance with the Scottish Government's guidance, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Board and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

Financial statements

In my opinion:

- the financial statements give a true and fair view, in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers, of the state of affairs of Highlands and Islands Enterprise, and Highlands and Islands Enterprise Group, as at 31 March 2010 and of its net operating cost, changes in taxpayers' equity and cash flows for the year then ended
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers
- information which comprises only the Management Commentary included in the Annual Report is consistent with the financial statements.

Regularity

In my opinion in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Lorna Meahan BAcc (Hons) CA

Assistant Director of Audit

Audit Scotland

7th Floor, Plaza Tower, East Kilbride G74 1LW

8th October 2010

Group net expenditure statement

for the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Income from operating activities	3	23,532	18,113
Expenditure on operating activities			
Continuing operations	4	(55,618)	(66,893)
Discontinuing operations	4	(358)	-
		(55,976)	(66,893)
Administration and management charges			
Continuing operations	5	(22,190)	(22,493)
Discontinuing operations	5	(338)	(1,300)
		(22,528)	(23,793)
Excess of expenditure over income on operating activities		(54,972)	(72,573)
Share of associates' operating profit/(loss)		(293)	(326)
Notional interest charge	6	(1,706)	(1,723)
Investment income	7	(2,219)	(745)
Share of associates' investment income		2	4
Interest payable	8	(79)	(47)
Net operating cost before taxation		(59,267)	(75,410)
Taxation	10	(346)	(5)
Net operating cost after taxation		(59,613)	(75,415)

Group and HIE statement of financial position

as at 31 March 2010

	Notes	GROUP			HIE		
		2010 £000	2009 £000	2008 £000	2010 £000	2009 £000	2008 £000
Non-current assets							
Property, plant and equipment	11	49,051	46,403	46,653	48,867	46,158	46,016
Intangible assets	12	10	13	-	-	-	-
Financial assets	13	2,494	3,566	7,918	2,874	4,358	7,023
Investment in associate		128	486	842	-	-	-
Total non current assets		51,683	50,468	55,413	51,741	50,516	53,039
Current assets							
Inventories	14	122	103	-	-	-	-
Trade and other receivables	15	6,957	8,355	10,395	6,613	12,074	15,756
Cash and cash equivalents	16	2,527	3,710	3,195	1,534	2,153	2,276
Assets classified as held for sale		143	1,125	2,798	133	1,125	2,798
Total current assets		9,749	13,293	16,388	8,280	15,352	20,830
Current liabilities:							
Trade payables and other current liabilities	17	(11,152)	(11,928)	(12,582)	(10,232)	(14,831)	(17,484)
Net current assets/(liabilities)		(1,403)	1,365	3,806	(1,952)	521	3,346
Total assets less current liabilities		50,280	51,833	59,219	49,789	51,037	56,385
Non-current liabilities:							
Trade payables and other liabilities falling due after more than one year	18	(1,897)	(2,733)	(2,445)	(1,805)	(2,381)	(2,445)
Retirement benefit obligation	19	(20,464)	49,100 (24,023)	56,774 (15,614)	(20,593)	48,656 (24,028)	53,940 (14,643)
Net assets		27,919	25,077	41,160	27,391	24,628	39,297
Reserves							
Revaluation reserve		221	117	76	221	117	76
Government grant reserve		5,253	3,449	1,391	5,218	3,407	1,391
Other reserve		415	400	400	15	-	-
Pension reserve		(20,273)	(23,832)	(15,614)	(20,593)	(24,028)	(14,643)
General reserve		42,303	44,943	54,907	42,530	45,132	52,473
		27,919	25,077	41,160	27,391	24,628	39,297

A L Paterson
4th October 2010
Accountable Officer

Group statement of cash flows

for the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Net cash outflow from operating activities			
Profit/(loss) before taxation	22	(55,243)	(72,672)
Share of Associates profit/(loss)		359	322
Depreciation		1,430	1,357
Amortisation of intangibles		3	-
Government grant release		(91)	(1,046)
Investment income		(90)	(342)
Interest expense		79	46
		<hr/>	<hr/>
		(53,553)	(72,335)
(Increase)/decrease in trade and other receivables		1,399	(13,579)
Provision for irrecoverable debts and losses		106	4,900
(Increase)/decrease in inventories		(19)	5
Increase/(decrease) in trade and other payables		(1,118)	18,115
Movement in pension provision		(5,776)	(1,910)
Investments written off, net of provision		1,318	73
Loss/(profit) on sale of property, plant and equipment		(162)	(834)
Revaluation of property		4,180	7,105
Revaluation of investments		-	(247)
Revaluation of assets held for resale		15	-
Movement in deferred income		(835)	-
		<hr/>	<hr/>
Cash generated from operations		(54,445)	(58,707)
		<hr/>	<hr/>
Taxes paid		(3)	(40)
		<hr/>	<hr/>
Net cash from (used in) operating activities		(54,448)	(58,747)
Cash flows from investing activities			
Payments to acquire shares		(360)	(389)
Payments for the construction of property		(8,262)	(5,951)
Payments for tenants improvements		(22)	(802)
Payments to acquire plant and equipment		(100)	(994)
Purchase of assets classified as held for sale		(9)	-
Proceeds from sale of plant, property and equipment		175	2,863
Proceeds from sale of assets classified as held for sale		1117	1,183
Receipts from sale of shares		-	310
Loans advanced		(50)	(986)
Loans repaid		139	21
Interest received		89	189
Dividends received		10	110
		<hr/>	<hr/>
Net cash from/(used in) investing activities		(7,273)	(4,446)
Cash flows from financing activities			
Grant in aid		58,723	65,968
Capital grants		1,894	(2,138)
Interest paid		(79)	(122)
		<hr/>	<hr/>
Net cash from financing activities		60,538	63,708
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		(1,183)	515
		<hr/>	<hr/>
Cash and cash equivalents at beginning of period		3,710	3,195
		<hr/>	<hr/>
Cash and cash equivalents at end of period		2,527	3,710

Group statement of changes in tax payers' equity

for the year ended 31 March 2010

Notes	Revaluation reserve £000	Capital reserve £000	Pension reserve £000	Government grant reserve £000	I&E reserve £000	Total reserves £000
Balance at 31 March 2008	76	400	(15,614)	-	50,828	35,690
Changes in accounting policy	-	-	-	1,391	4,079	5,470
Restated at 01 April 2009	76	400	(15,614)	1,391	54,907	41,160

Changes in taxpayers' equity for 2008-09

Net gain/(loss) on revaluation of property, plant and equipment	41	-	-	-	-	41
Net gain/(loss) on revaluation of intangible assets	-	-	-	-	-	-
Net gain/(loss) on revaluation of investments	-	-	-	-	-	-
Grants received in year	-	-	-	2,218	-	2,218
Release of reserves to the I&E	-	-	-	(202)	-	(202)
Non-cash charges - cost of capital	-	-	-	-	1,723	1,723
Transfers between reserves	-	-	-	42	-	42
Actuarial gain/(loss)	-	-	(8,218)	-	(2,240)	(10,458)
Retained surplus/deficit	-	-	-	-	(75,415)	(75,415)
Total recognised income and expense for 2008-09	41	-	(8,218)	2,058	(75,932)	(82,051)
Grant from Scottish Government	-	-	-	-	65,968	65,968
Balance at 31 March 2009	117	400	(23,832)	3,449	44,943	25,077

Changes in taxpayers' equity for 2009-10

Net gain/(loss) on revaluation of property, plant and equipment	104	15	-	-	-	119
Net gain/(loss) on revaluation of intangible assets	-	-	-	-	-	-
Net gain/(loss) on revaluation of investments	-	-	-	-	-	-
Grants received in year	-	-	-	1,910	-	1,910
Release of reserves to the I&E	-	-	-	(106)	-	(106)
Non-cash charges - cost of capital	-	-	-	-	1,706	1,706
Transfers between reserves	-	-	-	-	-	-
Actuarial gain/(loss)	-	-	3,559	-	(3,456)	103
Retained surplus/deficit	-	-	-	-	(59,613)	(59,613)
Total recognised income and expense for 2009-10	104	15	3,559	1,804	(61,363)	(55,881)
Grant from Scottish Government	-	-	-	-	58,723	58,723
Balance at 31 March 2010	221	415	(20,273)	5,253	42,303	27,919

HIE statement of changes in taxpayers' equity

for the year ended 31 March 2010

Notes	Revaluation reserve £000	Capital reserve £000	Pension reserve £000	Government grant reserve £000	I&E reserve £000	Total reserves £000
Balance at 31 March 2008	76	-	(14,643)	-	48,353	33,786
Changes in accounting policy	-	-	-	1,391	4,120	5,511
Restated at 01 April 2009	76	-	(14,643)	1,391	52,473	39,297

Changes in taxpayers' equity for 2008-09

Net gain/(loss) on revaluation of property, plant and equipment	41	-	-	-	-	41
Net gain/(loss) on revaluation of intangible assets	-	-	-	-	-	-
Net gain/(loss) on revaluation of investments	-	-	-	-	-	-
Grants received in year	-	-	-	2,218	-	2,218
Release of reserves to the I&E	-	-	-	(202)	-	(202)
Non-cash charges - cost of capital	-	-	-	-	1,605	1,605
Transfers between reserves	-	-	-	-	-	-
Actuarial gain/(loss)	-	-	(9,385)	-	852	(8,533)
Retained surplus/deficit	-	-	-	-	(75,766)	(75,766)
Total recognised Income and expense for 2008-09	41	-	(9,385)	2,016	(73,309)	(80,637)
Grant from Scottish Government	-	-	-	-	65,968	65,968
Balance at 31 March 2009	117	-	(24,028)	3,407	45,132	24,628

Changes in taxpayers' equity for 2009-10

Net gain/(loss) on revaluation of property, plant and equipment	104	15	-	-	-	119
Net gain/(loss) on revaluation of intangible assets	-	-	-	-	-	-
Net gain/(loss) on revaluation of investments	-	-	-	-	-	-
Grants received in year	-	-	-	1,910	-	1,910
Release of reserves to the I&E	-	-	-	(99)	-	(99)
Non-cash charges - cost of capital	-	-	-	-	1,691	1,691
Transfers between reserves	-	-	-	-	-	-
Actuarial gain/(loss)	-	-	3,435	-	(3,437)	(2)
Retained surplus/deficit	-	-	-	-	(59,579)	(59,579)
Total recognised Income and expense for 2009-10	104	15	3,435	1,811	(61,325)	(55,960)
Grant from Scottish Government	-	-	-	-	58,723	58,723
Balance at 31 March 2010	221	15	(20,593)	5,218	42,530	27,391

Notes to the accounts

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the 2009-10 Government Financial Reporting Manual (FReM) and Accounts Direction issued by Scottish Ministers, in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990.

The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Highlands and Islands Enterprise for the purpose of giving a true and fair view has been selected. The particular policies adopted by Highlands and Islands Enterprise are described below. They have been applied consistently in dealing with the items that are considered material to the accounts.

The accounts are prepared on a historical cost basis, except for land and buildings and available-for-sale financial assets that have been measured at fair value and loans and receivables that have been measured at amortised cost. The consolidated financial statements are presented in UK pound sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

For all periods up to and including 31 March 2009 HIE prepared its financial statements in accordance with UKGAAP. These financial statements for year ended 31 March 2010 are the first HIE is required to prepare in accordance with IFRS as adopted under FReM.

Accordingly HIE has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 April 2009.

In preparing these financial statements HIE has started from an opening balance sheet as at 1 April 2008 the group's date of transition to IFRSs, and made those changes in accounting policies and other restatements required by IFRS 1 for the first-time adoption of IFRSs. Note 29 details the principle adjustments made by moving from UK GAAP to IFRS GAAP.

Exceptions applied

IFRS 1 allows first time adopters certain exemptions from the general requirement to apply IFRSs. HIE has taken the following exemptions:

- IFRS 3 Business combinations has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 April 2008
- Certain items of property, plant and equipment which were carried in the balance sheet on the basis of valuations performed as at 31 March 2008. HIE has elected to regard these fair values as deemed cost as at the date of revaluation.

The Board and Accountable Officer have considered the Agency's Operating Plan requirement and consider that the Resource budget awarded by the Scottish Government is adequate. Refer to the Management Commentary for current details. The accounts are therefore prepared on a going concern basis.

Basis of consolidation

The Group Accounts consolidate the accounts of Highlands and Islands Enterprise and its subsidiary undertakings drawn up to 31 March each year.

The results of CairnGorm Mountain Limited, a wholly owned subsidiary of Highlands and Islands Enterprise, are consolidated within the accounts of the Group.

The results of Highlands and Islands Community Energy Company Limited, a wholly-owned subsidiary of Highlands and Islands Enterprise, are consolidated within the accounts of the Group.

The results of Distance Lab Limited, a wholly-owned subsidiary of Highlands and Islands Enterprise, are consolidated within the accounts of the Group.

No operating cost statement is presented for Highlands and Islands Enterprise as permitted by section 230 of the Companies Act 1985 and with the approval of Scottish Ministers.

Undertakings, other than subsidiary undertakings, in which HIE has an investment representing 20 per cent, or more than 20 per cent of the voting rights and over which it exerts significant influence, are treated as associated undertakings in accordance with IAS 28 and IAS 27, unless the impact of these undertakings are deemed immaterial for the purposes of these accounts.

The Group Accounts include Highlands and Islands Enterprise's share of the results and reserves of HIE Ventures Limited, based on audited accounts to 31 March 2010.

Scottish Health Innovations Limited, Scottish Intellectual Asset Management Limited and ITI Scotland Limited are jointly owned with Scottish Enterprise. The Group Accounts include Highlands and Islands Enterprise's share of the results and reserves of Scottish Health Innovations Limited and Scottish Intellectual Asset Management Limited, based on audited accounts to 31 March 2010.

The consolidated accounts do not include the results of ITI Scotland Limited and the results of this company are included in the accounts of Scottish Enterprise. HIE resigned as a member on 31 March 2010.

Details of undertakings which would fall within the definition of Associates or Joint Ventures, but where the impact of equity accounting for these is considered immaterial, are noted below. For each, details of HIE's relationship with the company is shown:

The Centre for Health Science: HIE is one of three members of this company limited by guarantee.

AI Welders: HIE has the right to convert 40,000 out of its 60,000 Cumulative Convertible Participating Preferred Ordinary Shares into 40,000 Ordinary Shares which would give HIE 30% of the Ordinary Share Capital.

Gaeltec Ltd: HIE holds 34.7% of the Ordinary Share Capital of Gaeltec and has the right to appoint one of the four directors of the company.

Rodel Hotels: HIE has 56,000 Cumulative Convertible Participating Preferred Ordinary Shares with the right to convert these into Ordinary Shares, which would give HIE 30.1% of the voting rights.

Sitekit Solutions Ltd: HIE has the right to convert its 160,000 Cumulative Convertible Participating Redeemable Preferred Ordinary Shares into 20,000 Ordinary Shares which would give HIE 20% of the voting rights.

Inverness Airport Business Park Ltd: HIE holds 5% of the Ordinary Shares in this company but has the right to appoint two of the seven directors on the board giving HIE more than 20% of the voting power on the board.

In the opinion of Highlands and Islands Enterprise, none of the other minority investments conform to the definition of associated companies contained in International Accounting Standard 28.

Basis of operations

Highlands and Islands Enterprise is in the process of winding-up the former local enterprise companies (LECs). HIE resigned as a member of Careers Trust Scotland Limited during the year. The Highlands and Islands Community Energy Company Limited ceased trading during the year in which a contract was tendered and awarded to Community Energy Scotland Ltd to continue similar involvements in renewable energy.

Distance Lab is a company limited by guarantee that researches uses of digital media technology. HIE Ventures Limited is a venture capital company aimed at investing in companies operating in the Highlands and Islands. Scottish Health Innovations Limited, a company limited by guarantee, was formed to promote research and development within the National Health Service in Scotland, particularly the commercialisation of research, technology and innovations. Scottish Intellectual Asset Management Limited, a company limited by guarantee, was formed to help build Scotland's competitiveness in a modern knowledge economy by enabling Scottish businesses to exploit their intellectual assets. CairnGorm Mountain Limited is a company which operates a ski resort and visitor attraction.

Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

In the process of applying Highlands and Islands Enterprise accounting policies, management made a number of judgements, apart from those involving estimations. The judgements which have the most significant effect on the amounts recognised in the financial statements are detailed within the notes which follow.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included within the notes below.

Accounting for grant-in-aid

Highlands and Islands Enterprise receives grant-in-aid from Scottish Ministers to finance its capital expenditure and the excess of its revenue expenditure over attributable income. Grant-in-aid is credited to general reserves and the net expenditure set against this on the basis that grant-in-aid cannot be allocated between revenue and capital expenditure as disclosed in the accounts.

European Union funding and other grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Claims for funding relating to buildings are taken to the Government Grant Reserve and are credited to income over the useful life of the properties. Grants relating solely to land, which is deemed to have an infinite useful life, are credited to the Government Grant Reserve until the land is disposed of.

Property, plant and equipment

Property, plant and equipment is accounted for in accordance with IAS 16 'Property, Plant and Equipment'.

HIE has four types of property, plant and equipment:

- Land and buildings
- Tenants' improvements
- Other plant and equipment
- IT equipment

As land and buildings are primarily held by HIE for economic development purposes, in accordance with the FReM, the principles of International Accounting Standards (IAS) 16 'Property, Plant and Equipment' are followed.

Property, plant and equipment are included in the statement of financial position at their fair value and non-property assets with a short economic useful life are carried at depreciated historic cost.

For non-property assets, HIE capitalises any purchases for individual items over £5,000 where the purchase is expected to have a useful life greater than one year. In line with IAS 16, for property, HIE capitalises any costs directly attributable to bringing the property to the condition necessary for it to be used in the manner intended; this includes professional fees incurred but excludes any costs of a repair or maintenance nature.

Depreciation is provided on all property, plant and equipment other than freehold land and Assets Under Construction on a straight line basis over their expected useful lives, as follows:

Buildings - structure: 30-60 years, with one exception where a useful life of 5 years was estimated

Buildings - engineering: 10-20 years

Buildings - specialist engineering: 20 years

Plant and Equipment: 4 years

Tenants Improvements: 10 years

IT equipment: 4 years

The fair value for completed property is based on the open market value as defined by the guidance notes issued by the Royal Institution of Chartered Surveyors. Professional, external valuations are carried out annually.

Assets under construction are shown at impaired cost. This recognises the costs of construction with an allowance made for a proportion of the expected impairment of these on completion, based on the degree of completion at the year end. This adjustment is considered necessary to reflect the fact that the market values of assets under construction are less than the cost. This arises as one of the purposes of HIE's property function is to address market failure. Once completed and ready for use, these assets are reclassified as either land and buildings held for regeneration purposes or for own use, and accounted for accordingly.

Deficits arising on revaluation are charged to the operating cost statement, although this is first offset against any revaluation reserve in respect of that property. Surpluses on revaluation are credited to a revaluation reserve after eliminating any accumulated deficit originally charged to the net expenditure statement in accordance with IAS 16.

Financial assets - Equity

Equity instruments have been classified as Available for Sale financial assets and are shown at fair value in accordance with IAS 39. A review of the share agreements and articles of association of the investee companies was carried out for all HIE's investments to establish the correct classification of each. As there is no active market in most of HIE's investments, fair value has been determined internally using valuation techniques. The valuation techniques adopted include the price of recent transactions at arm's length and net assets based valuations. Other valuation methods were not considered appropriate due to a lack of market place comparables for HIE's equity. Decreases in the fair values have been charged to the Operating Cost statement as these are considered to be impairment losses.

- Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and are carried at amortised cost using the effective interest method. This includes preference shares which have the right to a dividend stream and redemption of the shares at a given point in time. Where the redemption date has passed, it was assumed in the amortised cost calculations, that the redemption date would take place in a year's time. The amortised cost valuations were then reviewed and impairment considered, using information obtained from the monitoring and account management process. Movements in amortised cost are recognised in the Operating Cost statement and impairment provided for where the amortised cost valuation is not considered to reflect a true and fair view. These impairments are effectively measured as the difference between the amortised cost and the discounted present value of estimated future cash flows.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition

Assets classified as held for sale

Assets classified as held for sale have been accounted for in accordance with International Financial Reporting Standard (IFRS) 5. These relate to properties which have been approved for sale with a willing buyer and where the sale is expected to be completed during the next 12 months and are shown at open market value with an allowance made for legal selling costs.

Irrecoverable income

Irrecoverable debts are written off at the earliest opportunity. Provision is made for debts which are considered unlikely to be recovered.

Lease commitments

Highlands and Islands Enterprise has entered into commercial property leases as lessor on its investment property portfolio and as lessee when it obtains the use of property, plant and equipment. The classification of such leases as operating or financial lease requires the group to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or requires the significant risks and rewards of ownership of these assets. Assets acquired under finance leases are capitalised in the balance sheet and depreciated over their useful lives. The interest element of the rental obligations is charged to the operating cost statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to the operating cost statement on a straight line basis over the life of the lease.

Research expenditure

All research expenditure is charged against revenue in the year it occurs.

Insurance

In line with central government policy, Highlands and Islands Enterprise and its subsidiary companies bear their own liability for all risks except for statutory obligations.

Taxation

The companies in the HIE group are subject to corporation tax on their annual surplus as computed for taxation purposes. HIE and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned. Provision is made for deferred taxation only when material liabilities are expected to arise in the foreseeable future. Provision for corporation tax is made on gains, profits and losses, as computed for tax purposes, arising from business activities. The tax computations for all periods ending before 31 March 2008 have been agreed with the relevant tax authorities.

Pension costs (retirement benefit obligations)

Staff are members of the Highlands and Islands Enterprise Superannuation Scheme or local government pension funds. The Highlands and Islands Enterprise Superannuation Scheme provides benefits based on final pensionable salary. The assets of the scheme are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the scheme's trustees. The local government pension funds are defined benefit schemes, the assets of which are held in independently administered funds.

On the advice of independent qualified actuaries, contribution payments are made to the plans to ensure that the plans' assets are sufficient to cover future liabilities. Pension plan assets are measured using market values. Pension plan liabilities are measured using the projected unit method and discounted by the yield available on long-dated, high quality corporate bonds. Any increase in the present value of the liabilities of the defined benefit pension plans expected to arise from employee service in the period is charged against operating surplus.

The expected return on the plans' assets and the increase during the period in the present value of the plans' liabilities arising from the passage of time are included in investment income. Actuarial gains and losses are recognised in the statement of recognised gains and losses.

Additional information is disclosed in note 19.

Trade receivables and payables

All commercial and trade sums due and payable (debtors and creditors) are stated at cost.

Exceptional items

Highlands and Islands Enterprise presents as exceptional items on the face of the net expenditure statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow stakeholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

2. Segmental Information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to allocate resources.

The following table presents the revenue and profit information regarding HIE's operating segment for the years ended 31 March 2010 and 2009 based on the management information produced.

	GROUP	
	2010	2009
	£000	£000
Income		
Grant-in-aid	61,354	64,728
European		
Single projects	3,094	1,748
Schemes	614	300
	<u>3,708</u>	<u>2,048</u>
Capital		
Equity sales	-	-
Loan repayments	92	247
Property sales	1,428	4,092
	<u>1,520</u>	<u>4,339</u>
Revenue		
Property Rental	6,247	5,508
Loan interest/dividend	88	319
Big Lottery Fund	349	5,905
Other receipts	302	357
	<u>6,986</u>	<u>12,089</u>
Other Income	12,214	18,476
Total Income	<u>73,568</u>	<u>83,204</u>
Expenditure		
Block A		
High Growth Business	17,424	30,435
Regional Competitiveness	17,910	11,941
Strengthening Communities	7,472	13,749
Total Block A	<u>42,806</u>	<u>56,125</u>
Big Lottery - operational spend	-	5,501
European single projects	3,093	1,748
European schemes	614	300
Pension Fund Deficit Recovery plan	2,500	2,500
Selective Voluntary Severance	3,900	-
Business Gateway	2,632	-
Total Block A	<u>55,545</u>	<u>66,174</u>
Block B		
Management, staff and admin cost	17,512	16,609
Big Lottery	349	404
Total Block B	<u>17,861</u>	<u>17,013</u>
Total expenditure	<u>73,406</u>	<u>83,187</u>
Financial position (I&E)	<u>162</u>	<u>17</u>
Reconciliation to net operating cost before taxation:		
Financial position (I&E)	162	17
Pension (FRS17)	(3,435)	(2,881)
Depreciation	1,338	1,295
Provisions and charges	76	2,805
Timing differences	956	373
EU cost accrual	2,756	1,501
Property cost of sales	(1,277)	3,086
Capital revaluation and additions	(990)	(276)
Big Lottery	(489)	(842)
Grant-in-aid	58,723	64,728
Notional interest	1,706	1,723
Interest payable	4	3
Other group companies	61	2,079
Skills Development Scotland charges	-	2,833
Net operating cost before taxation	<u>59,267</u>	<u>75,410</u>

3. Income from operating activities

Income, which is shown net of Value Added Tax (VAT), is made up of receipts from various bodies as detailed to the right:

	GROUP	
	2010 £000	2009 £000
European Regional Development Fund	-	1
European Social Fund	-	-
Other European contributions	-	-
Scottish Government receipts	-	68
Property income	6,591	6,957
Other external income	16,941	11,087
	23,532	18,113

All income shown relates to continuing activities.

4. Expenditure on operating activities

Expenditure is shown net of Value Added Tax (VAT) except where the VAT is irrecoverable.

	High Growth Businesses £000	Regional Competitive -ness £000	Strengthening Communities £000	Tourism Attraction Operator £000	Total £000	2009 £000
Highlands and Islands Enterprise	18,320	26,021	8,690	-	53,031	63,478
CairnGorm Mountain Limited	-	-	-	2,587	2,587	2,319
Distance Lab Limited	358	-	-	-	358	342
Former LECs *	-	-	-	-	-	15
Highlands and Islands Community Energy Company	-	-	-	-	-	739
Group	18,678	26,021	8,690	2,587	55,976	66,893
2009	22,316	27,698	14,560	2,319	66,893	
2010						
Continuing operations	18,320	26,021	8,690	2,587	55,618	
Discontinuing operations	358	-	-	-	358	
	18,678	26,021	8,690	2,587	55,976	
2009						
Continuing operations	22,316	27,698	14,560	2,319	66,893	
Discontinuing operations	-	-	-	-	-	
	22,316	27,698	14,560	2,319	66,893	

* Local enterprise companies (LECs) are in the process of being wound-up. HIE delivery continues through its area teams.

Expenditure on high growth businesses and regional competitiveness is split in the proportion of **49% to 51%** unless a specific allocation can be made. This allocation of expenditure between operating groups is an estimate based on formula share and the split of budgets within the agency that is calculated at the beginning of the financial year.

Expenditure includes grants of **£25,391,000** (2009 - £34,654,000) of which **£3,313,000** (2009- £6,757,000) were made to the public sector and **£22,078,000** (2009 - £27,807,000) to the private sector.

Property revaluation and management costs of **£7,268,000** (2009 - £9,175,000) are included within Regional Competitiveness expenditure above.

5a. Administration and management charges by organisation

	GROUP	
	2010 £000	2009 £000
Highlands and Islands Enterprise	20,692	22,433
CairnGorm Mountain Ltd	1,498	884
Distance Lab	338	293
Former LECs	-	134
Highlands and Islands Community Energy Company	-	49
Network	22,528	23,793
Continuing operations	22,190	22,493
Discontinuing operations	338	1,300
	22,528	23,793

5b. Administration and management charges

	GROUP		HIE	
	2010 £000	2009 £000	2010 £000	2009 £000
Continuing operations				
Staff and board member salaries (note 9)	14,581	14,342	14,581	14,184
Voluntary severance packages	3,768	-	3,768	-
FRS17 adjustment in respect of service costs and curtailments	(5,773)	(2,881)	(5,773)	(1,949)
Travel and subsistence - Board members	36	25	36	23
Travel and subsistence - staff	748	836	748	805
Accommodation	2,125	1,797	2,126	1,640
Hospitality - Board members	8	13	8	13
Hospitality - staff	115	128	115	127
Audit fees	128	240	113	184
Non-audit fees paid to auditors	3	11	-	-
Operating lease rentals - equipment	76	74	68	68
Depreciation of fixed assets	1,426	1,312	1,338	1,274
Equipment and furnishings	31	81	31	41
Provision for irrecoverable debts and losses	1,336	4,261	35	4,455
Other administration costs	3,582	2,254	2,179	1,402
	22,190	22,493	19,373	22,267
Discontinuing operations				
Staff and Board member salaries (note 9)	199	-	-	-
Travel and subsistence - Board members	1	-	-	-
Travel and subsistence - staff	11	-	-	-
Accommodation	55	527	-	527
Audit Fees	4	-	-	-
Non-audit fees paid to auditors	1	-	-	-
Depreciation of fixed assets	28	45	-	45
Equipment and furnishings	15	-	-	-
Provision for irrecoverable debts and losses	(28)	-	-	-
Other administration costs	52	728	-	728
	338	1,300	-	1,300

Fees chargeable for audit services provided by Audit Scotland amounted to £147,400 (2009 - £144,350).

6. Notional charges

In accordance with Governmental Financial Reporting Manual (FREM) HIE is required to account for the full cost of its activities.

The following notional charge has been included in the accounts:

Interest charge

GROUP
2010 2009
£000 £000

1,706 1,723

The notional interest charge is shown separately on the face of the net expenditure statement and the corresponding credit is shown as a movement in reserves. The charge is calculated on the basis of 3.5% (2009 - 3.5%) on the average capital employed in the year.

7. Investment income

Dividends received
Loan interest receivable
Bank interest receivable
Surplus on disposal of investments

GROUP
2010 2009
£000 £000

32 72

41 123

17 147

10 (73)

100 269

Expected return on pension plan assets
Interest on pension plan liabilities

2,535 3,734

(4,854) (4,748)

(2,219) (745)

8. Interest payable

Other

GROUP
2010 2009
£000 £000

79 47

79 47

9. Staff costs

	GROUP	
	2010	2009
	£000	£000
Wages and salaries	12,276	11,798
Voluntary severance packages	3,768	-
Social security costs	910	876
Other pension costs	4,947	4,911
Contract/temporary staff	77	190
	21,978	17,775
Board members' remuneration	270	282
	22,248	18,057

Of the total above, £18,552,065 (2009 - £14,259,417) relates to complement staff and Board members. The balance relates to project staff charged to expenditure on operating activities.

The average number of employees was as follows:

	GROUP		GROUP	
	2010		2009	
	Complement staff	Total staff	Complement staff	Total staff
Senior management	56	61	64	70
Operational staff	285	310	279	299
Administration and support staff	42	55	46	54
	383	426	389	423

Total staff includes project staff who work on fixed short-term contracts in support of a number of special initiatives.

The figures for 'total staff' reflect the average number of staff employed over the course of the year, without adjustment for those who left in the voluntary severance exercise at the end of March 2010. In addition to permanent staff employed directly by HIE, the figures also include staff in short-term posts and staff employed by subsidiaries: CairnGorm Mountain Ltd and Distance Lab Ltd.

10. Taxation

	GROUP	
	2010	2009
	£000	£000
Corporation tax	346	3
Corporation tax under-provided in previous years	-	1
Share of taxation of associated undertaking	-	1
	346	5

Corporation tax is charged at 30 per cent on the taxable surplus of Highlands and Islands Enterprise and charged at rates between 10 and 20 per cent on the taxable income of its subsidiaries.

Where liabilities for earlier years have not been finally agreed with the Inland Revenue, provision has been made for material estimated liabilities outstanding.

11. Property plant and equipment

At 31 March 2010, industrial and commercial properties were valued on an open market value basis, in accordance with the guidance notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors. The valuations were carried out by Graham and Sibbald, chartered surveyors.

GROUP	Property £000	Tenants improvements £000	IT equipment £000	Other Plant and equipment £000	Total £000
Cost or valuation					
At 1 April 2008	45,720	1,109	730	2,472	50,031
Additions	8,725	301	55	251	9,332
Disposals	-	-	-	(43)	(43)
Assets held for resale	(1,183)	-	-	-	(1,183)
Reclassifications	-	-	-	-	-
Revaluations	(6,084)	-	-	-	(6,084)
Impairment on AUC	(931)	-	-	-	(931)
At 31 March 2009	46,247	1,410	785	2,680	51,122
Depreciation					
At 1 April 2008	-	377	669	2332	3,378
Charged in year	1,041	189	39	112	1,381
Disposals	-	-	-	-	-
Assets held for resale	-	-	-	(40)	(40)
Reclassifications	-	-	-	-	-
Revaluations	-	-	-	-	-
At 31 March 2009	1,041	566	708	2,404	4,719
Net book value					
At 31 March 2009	45,206	844	77	276	46,403
At 1 April 2009	46,247	1,410	785	2,680	51,122
Additions	8,262	11	3	109	8,385
Disposals	(97)	-	-	(222)	(319)
Assets held for resale	(144)	-	(32)	(46)	(222)
Reclassifications	-	-	-	-	-
Revaluations	(2,263)	-	-	(48)	(2,311)
Impairment on AUC	(1,751)	-	-	-	(1,751)
At 31 March 2010	50,254	1,421	756	2,473	54,904
Depreciation					
At 1 April 2009	1,041	566	708	2,404	4,719
Charged in year	1,080	199	34	108	1,421
Write down	-	-	4	5	9
Disposals	(2)	-	-	(222)	(224)
Assets held for resale	(4)	-	(28)	(40)	(72)
Reclassifications	-	-	-	-	-
Revaluations	-	-	-	-	-
At 31 March 2010	2,115	765	718	2,255	5,853
Net book value					
At 31 March 2010	48,139	656	38	218	49,051
At 1 April 2009	45,206	844	77	276	46,403
At 1 April 2008	45,720	732	61	140	46,653

Analysis of asset financing:**GROUP**

	Property £000	Tenants improvements £000	IT equipment £000	Other plant and equipment £000	Total £000
Owned	44,593	844	77	266	45,780
Finance leased	613	-	-	10	623
Net book value					
At 31 March 2009	45,206	844	77	276	46,403
Owned	47,526	656	38	208	48,428
Finance leased	613	-	-	10	623
Net book value					
At 31 March 2010	48,139	656	38	218	49,051
At 1 April 2009	45,206	844	77	276	46,403
At 1 April 2008	45,720	732	61	140	46,653

	Land held for regeneration purposes £000	Buildings held for regeneration purposes £000	Land held for own use £000	Buildings held for own use £000	Assets under construction £000	Total land and buildings £000
Cost or valuation						
At 1 April 2008	14,407	19,989	344	516	10,464	45,720
Additions	253	314	-	9	8,149	8,725
Disposals	-	-	-	-	-	-
Assets held for resale	(587)	(596)	-	-	-	(1,183)
Reclassifications	5,515	11,277	225	375	(17,392)	-
Revaluations	(1,950)	(3,976)	(58)	(100)	-	(6,084)
Impairment on AUC	-	-	-	-	(931)	(931)
At 31 March 2009	17,638	27,008	511	800	290	46,247
Depreciation						
At 1 April 2008	-	-	-	-	-	-
Charged in year	-	1,009	-	32	-	1,041
Disposals	-	-	-	-	-	-
Assets held for resale	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-
At 31 March 2009	-	1,009	-	32	-	1,041
Net book value						
At 31 March 2009	17,638	25,999	511	768	290	45,206
At 1 April 2009	17,638	27,008	511	800	290	46,247
Additions	3,305	1,033	-	-	3,924	8,262
Disposals	(69)	(28)	-	-	-	(97)
Assets held for resale	(81)	(63)	-	-	-	(144)
Reclassifications	249	506	-	-	(755)	-
Revaluations	(2,970)	675	-	32	-	(2,263)
Impairment on AUC	-	-	-	-	(1,751)	(1,751)
At 31 March 2010	18,072	29,131	511	832	1,708	50,254
Depreciation						
At 1 April 2009	-	1,009	-	32	-	1,041
Charged in year	-	1,048	-	32	-	1,080
Disposals	-	(2)	-	-	-	(2)
Assets held for resale	-	(4)	-	-	-	(4)
Reclassifications	-	(56)	-	-	56	-
Revaluations	-	-	-	-	-	-
At 31 March 2010	-	1,995	-	64	56	2,115
Net book value						
At 31 March 2010	18,072	27,136	511	768	1,652	48,139
At 1 April 2009	17,638	25,999	511	768	290	45,206
At 1 April 2008	14,407	19,989	344	516	10,464	45,720

Analysis of asset financing:

	Land held for regeneration purposes £000	Buildings held for regeneration purposes £000	Land held for own use £000	Buildings held for own use £000	Assets under construction £000	Total land and buildings £000
Owned	17,434	25,590	511	768	290	44,593
Finance leased	204	409	-	-	-	613
Net book value						
At 31 March 2009	17,638	25,999	511	768	290	45,206
Owned	17,868	26,727	511	768	1,652	47,526
Finance leased	204	409	-	-	-	613
Net book value						
At 31 March 2010	18,072	27,136	511	768	1,652	48,139
At 1 April 2009	17,638	25,999	511	768	290	45,206
At 1 April 2008	14,407	19,989	344	516	10,464	45,720

HIE

	Property £000	Tenants improvements £000	IT equipment £000	Other plant and equipment £000	Total £000
Cost or valuation					
At 1 April 2008	45,720	380	502	728	47,330
Additions	8,725	802	41	96	9,664
Disposals	-	-	-	-	-
Assets held for resale	(1,183)	-	-	-	(1,183)
Reclassifications	-	-	-	-	-
Revaluations	(6,084)	-	-	-	(6,084)
Impairment on AUC	(931)	-	-	-	(931)
At 31 March 2009	46,247	1,182	543	824	48,796
Depreciation					
At 1 April 2008	-	149	502	663	1,314
Charged in year	1,041	189	14	80	1,324
Disposals	-	-	-	-	-
Assets held for resale	-	-	-	-	-
Reclassifications	-	-	-	-	-
Revaluations	-	-	-	-	-
At 31 March 2009	1,041	338	516	743	2,638
Net book value					
At 31 March 2009	45,206	844	27	81	46,158
At 1 April 2009	46,247	1,182	543	824	48,796
Additions	8,262	11	-	22	8,295
Disposals	(97)	-	-	-	(97)
Assets held for resale	(144)	-	-	-	(144)
Reclassifications	-	-	-	-	-
Revaluations	(2,263)	-	-	-	(2,263)
Impairment on AUC	(1,751)	-	-	-	(1,751)
At 31 March 2010	50,254	1,193	543	846	52,836
Depreciation					
At 1 April 2009	1,041	338	516	743	2,638
Charged in year	1,080	199	9	49	1,337
Disposals	(2)	-	-	-	(2)
Assets held for resale	(4)	-	-	-	(4)
Reclassifications	-	-	-	-	-
Revaluations	-	-	-	-	-
At 31 March 2010	2,115	537	525	792	3,969
Net book value					
At 31 March 2010	48,139	656	18	54	48,867
At 1 April 2009	45,206	844	27	81	46,158
At 1 April 2008	45,720	231	-	65	46,016

Analysis of asset financing:

	Property £000	Tenant improvements £000	IT equipment £000	Other plant and equipment £000	Total £000
Owned	44,593	844	27	71	45,535
Finance leased	613	-	-	10	623
Net book value					
At 31 March 2009	45,206	844	27	81	46,158
Owned	47,526	656	18	44	48,244
Finance leased	613	-	-	10	623
Net book value					
At 31 March 2010	48,139	656	18	54	48,867
At 1 April 2009	45,206	844	27	81	46,158
At 1 April 2008	45,720	231	-	65	46,016

HIE

	Land held for regeneration purposes £000	Buildings held for regeneration purposes £000	Land held for own use £000	Buildings held for own use £000	Assets under construction £000	Total land and buildings £000
Cost or valuation						
At 1 April 2008	14,407	19,989	344	516	10,464	45,720
Additions	253	314	-	9	8,149	8,725
Disposals	-	-	-	-	-	-
Assets held for resale	(587)	(596)	-	-	-	(1,183)
Reclassifications	5,740	11,652	-	-	(17,392)	-
Revaluations	(1,975)	(4,034)	(32)	(43)	-	(6,084)
Impairment on AUC	-	-	-	-	(931)	(931)
At 31 March 2009	17,838	27,325	312	482	290	46,247
Depreciation						
At 1 April 2008	-	-	-	-	-	-
Charged in year	-	1,027	-	14	-	1,041
Disposals	-	-	-	-	-	-
Assets held for resale	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-
At 31 March 2009	-	1,027	-	14	-	1,041
Net book value						
At 31 March 2009	17,838	26,298	312	468	290	45,206
At 1 April 2009	17,838	27,325	312	482	290	46,247
Additions	3,305	1,033	-	-	3,924	8,262
Disposals	(69)	(28)	-	-	-	(97)
Assets held for resale	(81)	(63)	-	-	-	(144)
Reclassifications	249	506	-	-	(755)	-
Revaluations	(2,970)	693	-	14	-	(2,263)
Impairment on AUC	-	-	-	-	(1,751)	(1,751)
At 31 March 2010	18,272	29,466	312	496	1,708	50,254
Depreciation						
At 1 April 2009	-	1,027	-	14	-	1,041
Charged in year	-	1,066	-	14	-	1,080
Disposals	-	(2)	-	-	-	(2)
Assets held for resale	-	(4)	-	-	-	(4)
Reclassifications	-	(56)	-	-	56	-
Revaluations	-	-	-	-	-	-
At 31 March 2010	-	2,031	-	28	56	2,115
Net book value						
At 31 March 2010	18,272	27,435	312	468	1,652	48,139
At 1 April 2009	17,838	26,298	312	468	290	45,206
At 1 April 2008	14,407	19,989	344	516	10,464	45,720

Analysis of asset financing:

HIE	Land held for regeneration purposes £000	Buildings held for regeneration purposes £000	Land held for own use £000	Buildings held for own use £000	Assets under construction £000	Total land and buildings £000
Owned	17,634	25,889	312	468	290	44,593
Finance leased	204	409				613
Net book value						
At 31 March 2009	17,838	26,298	312	468	1,652	45,206
Owned	18,068	27,026	312	468	1,652	47,526
Finance leased	204	409				613
Net book value						
At 31 March 2010	18,272	27,435	312	468	1,652	48,139
At 1 April 2009	17,838	26,298	312	468	290	45,206
At 1 April 2008	14,407	19,989	344	516	10,464	45,720

Reconciliation of profit on sales:

	2010 £000	GROUP 2009 £000	2008 £000
Sales value of disposals	1,428	4,119	2,230
Net book value of disposals	1,277	2,929	1,712
Profit on sales	151	1,190	518

12. Intangible fixed assets

Intangible assets of £10,000 (2009 £13,000) relates to goodwill on consolidation of CairnGorm Mountain Limited.

13. Financial assets

Group Financial assets

	2010	2009	2008
	£000	£000	£000
Available for sale unlisted equity shares	924	658	2,637

Available for sale financial assets consist of investments in unlisted ordinary shares, which by their nature have no fixed maturity or redemption date.

These have been shown at their fair value. This fair value has been obtained using recent marketplace transactions where available, or using a net worth basis of valuation. Due to the lack of marketplace comparables, other valuation methodologies were not considered appropriate.

Loans and receivables

	Preference shares	Loan and receivables	Total	2009
	£000	£000	£000	£000
Amortised cost				
At 1 April 2009	8,629	1,799	10,428	10,778
Additions	-	-	-	191
Repayments	-	(70)	(70)	(51)
Disposals	-	-	-	(490)
Fair value adjustment	(2)	1	(1)	-
Written off	-	(20)	(20)	-
At 31 March 2010	8,627	1,710	10,337	10,428
Diminution in value				
At 1 April 2009	5,998	1,523	7,521	5,497
Additions	1,312	-	1,312	2,218
Disposals	-	-	-	(195)
Released	-	(46)	(46)	-
Written off	-	(20)	(20)	-
At 31 March 2010	7,310	1,457	8,767	7,520
Net book value				
At 31 March 2010	1,317	253	1,570	-
At 1 April 2009	2,632	276	2,908	2,908
At 1 April 2008	4,975	306	5,281	5,281

Preference shares and loans are shown at amortised cost after allowing for any impairment. Impairment is measured as the difference between the carrying amount and the present value of estimated future cashflows.

At 31 March 2010, loan instalments due for repayment within one year amounted to £80,000 (2009 - £1,194,000); (2008 - £683,000)

HIE Financial assets

	2010 £000	2009 £000	2008 £000
Available for sale unlisted equity shares	924	727	2,414

Available for sale financial assets consist of investments in unlisted ordinary shares, which by their nature have no fixed maturity or redemption date.

These have been shown at their fair value. This fair value has been obtained using recent marketplace transactions where available, or using a net worth basis of valuation. Due to the lack of marketplace comparables, other valuation methodologies were not considered appropriate.

Loans and receivables

	Preference shares £000	Loan and receivables £000	Total £000	2009 £000
Amortised cost				
At 1 April 2009	5,420	2,434	7,854	6,525
Additions	-	61	61	1,841
Repayments	-	(852)	(852)	(21)
Disposals	(3)	(6)	(9)	(490)
Fair value adjustment	-	-	-	-
Written off	-	-	-	-
At 31 March 2010	5,417	1,637	7,054	7,855
Diminution in value				
At 1 April 2009	2,789	1,434	4,223	1,916
Additions	1,312	-	1,312	2,504
Disposals	-	-	-	(196)
Released	-	(431)	(431)	-
Written off	-	-	-	-
At 31 March 2010	4,101	1003	5,104	4,224
Net book value				
At 31 March 2010	1,316	634	1,950	-
At 1 April 2009	2,631	1,000	3,631	3,631
At 1 April 2008	4,594	15	4,609	4,609

Preference shares and loans are shown at amortised cost after allowing for any impairment. Impairment is measured as the difference between the carrying amount and the present value of estimated future cashflows.

At 31 March 2010, loan instalments due for repayment within one year amounted to £157,000 (2009 - £1,194,000); (2008 - £93,000).

Details of subsidiary undertakings: all held by Highlands and Islands Enterprise unless indicated.

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
HIE Argyll and the Islands	Scotland	n/a	n/a	Local enterprise company
HIE Caithness and Sutherland	Scotland	n/a	n/a	Local enterprise company
HIE Inne Gall	Scotland	n/a	n/a	Local enterprise company
HIE Inverness and East Highland	Scotland	n/a	n/a	Local enterprise company
HIE Lochaber	Scotland	n/a	n/a	Local enterprise company
HIE Moray	Scotland	n/a	n/a	Local enterprise company
HIE Orkney	Scotland	n/a	n/a	Local enterprise company
Ross and Cromarty Enterprise Limited	Scotland	n/a	n/a	Local enterprise company
HIE Shetland	Scotland	n/a	n/a	Local enterprise company
HIE Skye and Wester Ross	Scotland	n/a	n/a	Local enterprise company
Highlands and Islands Community Energy Company Limited	Scotland	n/a	n/a	Promote community involvement in renewable energy initiatives.
Distance Lab Limited	Scotland	n/a	n/a	To investigate how digital media technology can enable people to deal with distance in new ways and bring these technologies into every day use.
CairnGorm Mountain Ltd	Scotland	ordinary	100%	All year round tourist attraction including mountain railway and winter skiing facilities.

All the local enterprise companies ceased to be operational with effect from 1 April 2008.

Highlands and Islands Enterprise resigned as a member of Careers Trust Scotland Limited, which became wholly owned by Skills Development Scotland in March 2009.

Details of associated undertakings: all held by Highlands and Islands Enterprise unless indicated.

Name of company	Country of incorporation	Holding	Proportion of shares held	Nature of business
HIE Ventures Limited	Scotland	Ordinary Shares	30%	Venture capitalist
Scottish Health Innovations Limited	Scotland	'A' Ordinary Shares (non voting) n/a	80% n/a	Promote research and development within the National Health Service in Scotland particularly the commercialisation of research, technology and innovations.
Scottish Intellectual Asset Management Limited	Scotland	n/a	n/a	Help build Scotland's competitiveness in a modern knowledge economy by enabling Scottish businesses to exploit their intellectual assets.

Highlands and Islands Enterprise is a joint member, along with Scottish Enterprise, of Scottish Health Innovations Limited and Scottish Intellectual Asset Management Limited.

The results of Scottish Health Innovations Limited and Scottish Intellectual Asset Management Limited are included in the HIE accounts.

Details of investments in companies in which HIE's total investment in shares and loans: (a) equals 20%, or more than 20%, of the voting rights and exceeds £100,000 or; (b) the total investment exceeds £1,000,000

Name of company - activity	% of voting rights	Holding at 31 march 2010	Shares value paid	Loans outstanding	Outstanding commitment
HIE Ventures Limited - venture capitalist	30%	60,000 ordinary shares	60	*	-
	-	40,000 'A' non voting ordinary shares	40	-	-
Aviemore Highland Resort Limited - provider of accommodation in Aviemore	-	1,000,000 preference shares	1,000	-	-
	-	1,400,000 preferred ordinary shares	1,400	-	-
Balcas Limited - production of renewable wood pellet fuel	-	29,811 cumulative convertible participating redeemable preferred shares	2,000	-	438
Investments in 41 other businesses			8,079	1,976	
			12,579	1,976	

*Loans of £1,000,000 netted off by ERDF received. The outstanding commitment in respect of Balcas Limited relates to offers of grant.

14. Inventories

	2010	Group	2008	2010	HIE	2008
	£000	2009	£000	£000	2009	£000
		£000			£000	
Goods for resale	122	103	-	-	-	-

Goods for resale are held by CairnGorm Mountain Ltd and consist of café catering supplies and retail shop visitor goods. Inventories held in the Orbost estate comprise sheep and animal feedstuffs and have no material value.

The difference between purchase price of inventories and the replacement cost is not material.

15. Trade and other receivables

	2010	Group	2008	2010	HIE	2008
	£000	2009	£000	£000	2009	£000
		£000			£000	
Non-current assets held by local enterprise companies (see below)	-	-	-	-	37	1,597
Other receivables	6,374	6,937	8,794	5,899	7,592	7,981
Provision for bad debts	(709)	(603)	(395)	(708)	(646)	(395)
	5,665	6,334	8,399	5,191	6,946	7,586
Taxation recoverable	648	417	1,154	788	417	1,134
Accrued income and prepayments	644	1,604	842	579	1,543	664
Owed by subsidiary undertakings	-	-	-	55	3,131	4,775
	6,957	8,355	10,395	6,613	12,074	15,756

Analysis of trade and other receivables within boundaries for whole government accounts

	Group			HIE		
	2010 £000	2009 £000	2008 £000	2010 £000	2009 £000	2008 £000
Balances with other central government bodies	2,916	3,521	4,508	2,916	3,273	4,504
Balances with local authorities	100	156	392	100	147	159
Balances with NHS bodies	-	20	1,073	-	20	1,073
	3,016	3,697	5,973	3,016	3,440	5,736
Balances with bodies external to government	3,941	4,658	4,422	3,597	8,634	10,020
	6,957	8,355	10,395	6,613	12,074	15,756

All non-current assets formerly held by local enterprise companies have been transferred to HIE. Under the previous operating contract the value of any assets held fell to be repaid to Highlands and Islands Enterprise on the disposal of such non-current assets. Sums due from assets are attributable to the following:

	HIE		
	2010 £000	2009 £000	2008 £000
Investments	-	37	962
Equipment	-	-	134
Tenants' improvements	-	-	501
	-	37	1,597

16. Cash and cash equivalents

	Group			HIE		
	2010 £000	2009 £000	2008 £000	2010 £000	2009 £000	2008 £000
Group and HIE funds	1,012	1,567	931	19	10	12
Other scheme funds held	1,515	2,143	2,264	1,515	2,143	2,264
	2,527	3,710	3,195	1,534	2,153	2,276

The Statement of Financial Position includes funds held by Highlands and Islands Enterprise relating to the following schemes:

	Group			HIE		
	2010 £000	2009 £000	2008 £000	2010 £000	2009 £000	2008 £000
CED	-	771	640	-	771	640
LEADER +	-	512	342	-	512	342
Growing Community Assets	1,515	860	1,282	1,515	860	1,282
	1,515	2,143	2,264	1,515	2,143	2,264

Highlands and Islands Enterprise has been contracted by The Big Lottery Fund to promote and administer both the Scottish Land Fund and the Growing Community Assets Fund in Scotland until 30th June 2010.

HIE is an applicant under the Community Economic Development (CED) and LEADER + schemes. The balance on these accounts represents advances from the Scottish Government.

17. Trade payables and other current liabilities:

amounts falling due within one year

	Group			HIE		
	2010 £000	2009 £000	2008 £000	2010 £000	2009 £000	2008 £000
Other payables	6,608	8,059	8,520	6,501	8,112	5,767
Accruals	2,840	2,821	2,727	2,016	2,430	2,277
Provision - EU funding	13	4	-	13	4	-
Taxation and social security	955	464	766	910	363	766
Corporation tax	346	3	39	346	-	-
Prepaid rental income	390	577	530	390	577	530
Owed to subsidiary undertakings	-	-	-	56	3,345	8,144
	11,152	11,928	12,582	10,232	14,831	17,484

Analysis of trade and other payables within boundaries for whole government accounts

	Group			HIE		
	2010 £000	2009 £000	2008 £000	2010 £000	2009 £000	2008 £000
Balances with other central government bodies	2,689	1,909	2,365	2,689	1,909	2,259
Balances with local authorities	23	278	310	20	276	191
Balances with NHS bodies	-	34	-	-	34	-
	2,712	2,221	2,675	2,709	2,219	2,450
Balances with bodies external to government	8,440	9,707	9,907	7,523	12,612	15,034
	11,152	11,928	12,582	10,232	14,831	17,484

18. Trade payables and other liabilities:

amounts falling due after more than one year

	Group			HIE		
	2010 £000	2009 £000	2008 £000	2010 £000	2009 £000	2008 £000
Deferred income - other schemes	1,515	2,143	2,264	1,515	2,143	2,264
Debenture loans	92	93	-	-	-	-
Re-phased commercial rent	290	497	181	290	238	181
	1,897	2,733	2,445	1,805	2,381	2,445

19. Retirement benefit obligation

Staff are members of the Highlands and Islands Enterprise Superannuation Scheme or local government pension funds. The Highlands and Islands Enterprise Superannuation Scheme is a defined benefit scheme with benefits based on final pensionable salary. The assets of the scheme are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the scheme's trustees. The local government pension funds are defined benefit schemes, the assets of which are held in independently administered funds.

On 1 April 2008, staff previously employed by Highlands and Islands Enterprise transferred to the Skills Development Scotland Co. Ltd. For the purposes of IAS19 Employee Benefits, as at 31 March 2010 there was no formal agreement on the determination and accounting for assets and liabilities of the scheme relating to former employees of Highlands and Islands Enterprise. Therefore the agency continues to account for all assets and liabilities of the scheme including those relating to staff who transferred to Skills Development Scotland.

Contributions are made to the following local government pension funds by HIE:

- Highland Council Pension Fund
- Orkney Islands Council Pension Fund
- Shetland Islands Council Pension Fund
- Strathclyde Pension Fund

The pension scheme operated by CairnGorm Mountain Ltd (CML) is separate from HIE and involves no HIE employees. Further information about CML pension arrangements can be found in that company's annual report and accounts.

Highlands and Islands Enterprise Superannuation Scheme

The actuarial valuation at 5th April 2009 indicated a potential deficit of £27.0 million in the HIE pension fund. HIE, in agreement with the HIE Pension Fund Trustees and Scottish Government undertook to implement the following recovery plan to address this shortfall, following its acceptance by the Pensions Regulator:

- * **A lump sum payment of at least £2.5 million by 31st March 2009**
- * **A second lump sum payment by 31st March 2010 to take the combined contribution of both lump sum payments to £5 million**

In addition, HIE will maintain employer's contributions to the scheme at existing levels for the duration of the recovery plan. It is anticipated that this action will remove the deficit revealed in the April 2006 valuation by April 2016.

Pension disclosure under FRS17

Highlands and Islands Enterprise Superannuation Scheme

Highlands and Islands Enterprise operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at **5 April 2009** and updated to **31 March 2010** by a qualified independent actuary.

The service cost has been calculated using the Projected Unit method.

The major assumptions used by the actuary were (in nominal terms):

	31 March 2010	31 March 2009	31 March 2008	31 March 2007
	%	%	%	%
Rate of salary increases (% per annum)	4.10	5.50	5.60	5.10
Rate of pension increase (% per annum)	3.60	3.50	3.60	3.10
Discount rate (% per annum)	5.50	6.70	6.20	5.00
Inflation rate (% per annum)	3.60	3.50	3.60	3.10

During the year, Highlands and Islands Enterprise paid contributions equivalent to 24.9 per cent of pensionable salaries.

The assets in the scheme and expected rate of return were:

	Long-term rate of return expected at 31 March 2010 %	Value at 31 March 2010 £000	Long-term rate of return expected at 31 March 2009 %	Value at 31 March 2009 £000	Long-term rate of return expected at 31 March 2008 %	Value at 31 March 2008 £000	Long-term rate of return expected at 31 March 2007 %	Value at 31 March 2007 £000
Equities	6.75	37,369	6.25	23,239	6.80	34,571	6.90	36,436
Gilts/corporate bonds	5.30	18,804	4.20	15,274	4.50	18,257	4.10	16,361
Cash	0.00	3,905	0.00	2,547	4.20	445	4.35	45
Total market value of assets		60,078		41,060		53,273		52,842
Actuarial value of liability		(76,620)		(63,889)		(67,122)		(68,469)
Deficit in the scheme		(16,542)		(22,829)		(13,849)		(15,627)
Related deferred tax asset/ (liability)		-		-		-		-
Net pension liability		(16,542)		(22,829)		(13,849)		(15,627)

The current values show a decrease in the deficit at 31 March 2009 of £22,829m to £16,542m at 31 March 2010.

Local government pension funds

The valuation for the local government pension funds used for FRS 17 disclosures has been based on the most recent actuarial valuations at 31 March 2007 and updated by a qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the funds at 31 March 2010. Fund assets are stated at their market value at 31 March 2010:

	31 March 2010 %	31 March 2009 %	31 March 2008 %	31 March 2007 %
Main assumptions:				
Rate of salary increases (% per annum)	5.33	4.58	5.17	4.70
Rate of pension increase (% per annum)	3.30	3.08	3.67	3.20
Discount rate (% per annum)	5.50	6.85	6.70	5.40
Inflation rate (% per annum)	3.83	3.08	3.67	3.20

The share of the assets in the funds and the expected rate of return were:

	Long-term rate of return expected at 31 March 2010 %	Value at 31 March 2010 £000	Long-term rate of return expected at 31 March 2009 %	Value at 31 March 2009 £000	Long-term rate of return expected at 31 March 2008 %	Value at 31 March 2008 £000	Long-term rate of return expected at 31 March 2007 %	Value at 31 March 2007 £000
Equities	7.83	6,447	7.10	4,066	7.70	10,930	7.80	11,355
Gilts	4.50	247						
Bonds	5.13	781	5.68	815	5.30	2,559	4.90	2,308
Property	5.80	564	5.03	489	5.70	1,646	5.80	1,664
Cash	4.35	155	3.75	168	4.93	356	4.90	377
Estimated employer assets		8,194		5,538		15,491		15,704
Present value of scheme liabilities		(11,862)		(6,429)		(16,936)		(17,535)
Present value of unfunded liabilities		(383)		(308)		(320)		(98)
Deficit in the scheme		(4,051)		(1,199)		(1,765)		(1,929)
Related deferred tax liability		-		-		-		-
Net pension liability		(4,051)		(1,199)		(1,765)		(1,929)

The pension contributions with effect from 1 April 2009 for the local government pension funds are:

	2010	2009
Highland Council Pension Fund - former LECs	17.3%	17.4%
Highland Council - others	17.8%	17.8%
Orkney Islands Council Pension Fund	18.4%	17.7%
Shetland Islands Council Pension Fund	N/A	17.0%
Strathclyde Pension Fund	17.3%	16.8%

Group

	HIE*				HIE*			
	pension scheme	LGPF	CML	Total	pension scheme	LGPF	CML	Total
	2010 £000	2010 £000	2010 £000	2010 £000	2009 £000	2009 £000	2009 £000	2009 £000
Analysis of the amount charged to Income Statement								
Current service cost	1,721	186	18	1,925	1,984	223	39	2,246
Past service cost	1,375	18	-	1,393	-	19	-	19
Impact of settlements and curtailments	-	18	-	18	(463)	(881)	-	(1,344)
Expected return on pension scheme assets	(2,108)	(372)	(55)	(2,535)	3,183	501	50	3,734
Interest on pension scheme liabilities	4,353	465	36	4,854	(4,231)	(511)	(40)	(4,782)
Actual return less expected return on pension scheme assets	(12,630)	(1,916)	45	(14,501)	(17,923)	(2,162)	43	(20,042)
Experience gains and (losses) arising on the scheme liabilities	3,246	(9)	14	3,251	62	823	(27)	858
Changes in assumptions underlying the present value of the scheme liabilities	3,949	4,793	169	8,911	7,038	1,122	173	8,333
Restriction on scheme surplus	-	-	(330)	(330)	-	-	(176)	(176)
Prior year adjustment on assets	-	-	-	-	-	(134)	-	(134)
Total operating charge	(94)	3,183	(103)	2,986	(10,350)	(1,000)	62	(11,288)
Reconciliation of defined benefit obligation								
Opening defined benefit obligation	63,889	6,737	565	71,191	67,122	17,256	-	84,378
Recognised on acquisition	-	-	-	-	-	-	761	761
	63,889	6,737	565	71,191	67,122	17,256	761	85,139
Movement in year:								
Current service costs	1,721	186	18	1,925	1,984	223	39	2,246
Contributions by members	163	113	8	284	161	90	7	258
Past service costs	1,375	18	-	1,393	-	19	-	19
Impact of settlements and curtailments	-	18	-	18	(463)	(9,288)	-	(9,751)
Estimated unfunded benefits paid	-	(18)	-	(18)	-	(35)	-	(35)
Estimated benefits paid	(2,076)	(58)	(93)	(2,227)	(2,046)	(94)	(136)	(2,276)
Interest cost	4,353	465	36	4,854	4,231	511	40	4,782
Actuarial losses/(gains)	7,195	4,784	183	12,162	(7,100)	(1,945)	(146)	(9,191)
Closing defined benefit obligation	76,620	12,245	717	89,582	63,889	6,737	565	71,191
Reconciliation of fair value of assets								
Opening fair value of assets	41,060	5,538	1,128	47,726	53,273	15,491	-	68,764
Prior year adjustment	-	-	(37)	(37)	(558)	(134)	-	(692)
Opening fair value of assets - as restated	41,060	5,538	1,091	47,689	52,715	15,357	-	68,072
Recognised on acquisition	-	-	(191)	(191)	-	-	1,148	1,148
Expected return on assets	2,108	372	55	2,535	3,183	501	50	3,734
Contributions by members	163	113	8	284	161	90	7	258
Contributions by employer	6,193	323	21	6,537	4,412	281	16	4,709
Contribution in respect of unfunded benefits	-	8	-	8	-	7	-	7
Impact of settlements and curtailments	-	-	-	-	-	(8,407)	-	(8,407)
Actuarial gains/(losses)	12,630	1,916	(45)	14,501	(17,923)	(2,162)	43	(20,042)
Estimated unfunded benefits paid	-	(18)	-	(18)	-	(35)	-	(35)
Estimated benefits paid	(2,076)	(58)	(93)	(2,227)	(2,046)	(94)	(136)	(2,276)
	60,078	8,194	846	69,118	40,502	5,538	1,128	47,168
Estimated employer contribution year ended 31 March 2011	2,750	354	29	3,133				

HIE

	HIE* pension scheme 2010 £000	LGPF 2010 £000	Total 2010 £000	HIE* pension scheme 2009 £000	LGPF 2009 £000	Total 2009 £000
Analysis of the amount charged to Income Statement						
Current service cost	1,721	186	1,907	1,984	223	2,207
Past service cost	1,375	18	1,393	-	19	19
Impact of settlements and curtailments	-	18	18	(463)	(881)	(1,344)
Expected return on pension scheme assets	(2,108)	(372)	(2,480)	3,183	501	3,684
Interest on pension scheme liabilities	4,353	465	4,818	(4,231)	(511)	(4,742)
Actual return less expected return on pension scheme assets	(12,630)	(1,916)	(14,546)	(17,923)	(2,162)	(20,085)
Experience gains and (losses) arising on the scheme liabilities	3,246	(9)	3,237	62	823	885
Changes in assumptions underlying the present value of the scheme liabilities	3,949	4,793	8,742	7,038	1,122	8,160
Restriction on scheme surplus	-	-	-	-	-	-
Prior year adjustment on assets	-	-	-	-	(134)	(134)
Total operating charge	(94)	3,183	3,089	(10,350)	(1,000)	(11,350)
Reconciliation of defined benefit obligation						
Opening defined benefit obligation	63,889	6,737	70,626	67,122	17,256	84,378
Recognised on acquisition	-	-	-	-	-	-
	63,889	6,737	70,626	67,122	17,256	84,378
Movement in year:						
Current service costs	1,721	186	1,907	1,984	233	2,217
Contributions by members	163	113	276	161	90	251
Past service costs	1,375	18	1,393	-	19	19
Impact of settlements and curtailments	-	18	18	(463)	(9,288)	(9,751)
Estimated unfunded benefits paid	-	(18)	(18)	-	(35)	(35)
Estimated benefits paid	(2,076)	(58)	(2,134)	(2,046)	(94)	(2,140)
Interest cost	4,353	465	4,818	4,231	511	4,742
Actuarial losses/(gains)	7,195	4,784	11,979	(7,100)	(1,945)	(9,045)
Closing defined benefit obligation	76,620	12,245	88,865	63,889	6,737	70,626
Reconciliation of fair value of assets						
Opening fair value of assets	41,060	5,538	46,598	53,273	15,491	68,764
Prior year adjustment	-	-	-	-	(134)	(134)
Opening fair value of assets - as restated	41,060	5,538	46,598	53,273	15,357	68,630
Recognised on acquisition	-	-	-	-	-	-
Expected return on assets	2,108	372	2,480	3,183	501	3,684
Contributions by members	163	113	276	161	90	251
Contributions by employer	6,193	323	6,516	4,412	281	4,693
Contribution in respect of unfunded benefits	-	8	8	-	7	7
Impact of settlements and curtailments	-	-	-	-	(8,407)	(8,407)
Actuarial gains/(losses)	12,630	1,916	14,546	(17,923)	(2,162)	(20,085)
Estimated unfunded benefits paid	-	(18)	(18)	-	(35)	(35)
Estimated benefits paid	(2,076)	(58)	(2,134)	(2,046)	(94)	(2,140)
	60,078	8,194	68,272	41,060	5,538	46,598
Estimated employer contribution year ended 31 March 2011	2,750	354	3,104			

A history of the Highlands and Islands Enterprise Superannuation Scheme and for its share of the local government pension schemes for prior periods is as follows:

	HIE					Local government pension funds				
	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Experience gains and losses										
Difference between expected and actual return on scheme assets	12,630	(17,923)	(5,851)	(543)	6,544	1,916	(2,162)	(1,926)	186	1,978
Value of assets	60,078	41,060	53,273	52,842	49,309	8,194	15,357	15,491	15,704	13,944
Percentage of scheme assets	21.0%	(43.7)%	(11.0)%	(1.0)%	13.0%	23.4%	(39.0)%	(12.4)%	1.2%	14.2%
Experience gains and losses on scheme liabilities	(3,246)	59	(380)	(1,892)	(150)	9	823	(18)	8	1,409
Present value of liabilities	(76,620)	63,889	67,122	68,469	53,122	(12,245)	5,538	17,256	17,633	15,440
Percentage of scheme liabilities	4.2%	(0.1)%	(0.6)%	(2.8)%	-	(0.1)%	(12.2)%	(0.1)%	-	9.1%

Mortality

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 60 year old to live for a number of years as follows:

	UK 31/03/2010	UK 31/03/2009	UK 31/03/2008
1. Male member aged 60 (current life expectancy)	85	85	85
2. Male member age 40 (life expectancy at 60)	86	86	86

20. Provisions for loss

HIE

	Investments £000	Loan capital £000	Revenue debts £000	Government grants £000	Property repair £000	Total £000	2009 £000	2008 £000
At 1 April 2009	9,246	1,720	603	4	180	11,753	7,987	8,307
Written off	(129)	25	(85)	-	(180)	(369)	(676)	(326)
	9,117	1,745	518	4	-	11,384	7,311	7,981
Provisions for year:								
General	(2,598)	(289)	12	9	-	(2,866)	4,250	(87)
Commercial property	-	-	179	-	-	179	192	93
At 31 March 2010	6,519	1,456	709	13	-	8,697	11,753	7,987

Group

	Investments £000	Loan capital £000	Revenue debts £000	Government grants £000	Property repair £000	Total £000	2009 £000	2008 £000
At 1 April 2009	5,908	434	646	4	180	7,172	2,169	1,383
Written off/disposals	(129)	5	(85)	-	(180)	(389)	(226)	(76)
	5,779	439	561	4	-	6,783	1,943	1,307
Provisions for year:								
General	(2,991)	(436)	(32)	9	-	(3,450)	4,994	769
Commercial property	-	-	179	-	-	179	235	93
At 31 March 2010	2,788	3	708	13	-	3,512	7,172	2,169

Investments

A provision is recognised for the diminution in the value of specific shares within the portfolio of shares held.

Loan capital

The provision reflects potential not recovery of loans made to third party companies.

Revenue debts

Provision has been made for the potential non payment of trading debts from third party companies. The provision is based on specific revenues debts over three months old where HIE have reasonable cause to believe some or all of the debt may not be recoverable.

Government grants

Provision has been made for the potential decommitment of government grant funding.

Property repair

Provision has been made for unavoidable property reinstatement and repair costs.

21. Losses statement

	No of cases	Group £000	HIE No of cases	£000
Claims waived (amounts written off) during the year ended 31 March 2010	3	25	6	407

These write-offs relate to Scottish Government approved balances and Highlands and Islands Enterprise delegated authority.

There were no individual cases written off which exceeded £250,000.

Highlands and Islands Enterprise continues to pursue all outstanding debts.

22. Net cash flow from operating activities

	Group	
	2010 £000	2009 £000
Deficit on operating activities	54,972	72,573
Interest received	(58)	(270)
Dividends received	(31)	(72)
Deficit on disposal of investments	(9)	73
Share of related company results	290	322
Interest payable	79	46
Net cash outflow from operating activities	55,243	72,672

23. Commitments and contingent liabilities

	Group		HIE	
	2010 £000	2009 £000	2010 £000	2009 £000
Commitments				
Property	9,053	9,622	9,053	9,622
Grants and loans	46,922	55,884	46,922	55,884

(1) Commitments to capital and business investment projects often extend over more than one financial year. Major projects and initiatives are undertaken by Highlands and Islands Enterprise with the support of Scottish Ministers.

(2) HIE acquired control of CairnGorm Mountain Ltd during 2009 and the company continues trading. In addition, as the owner of the CairnGorm mountain railway, HIE will continue to fulfil its responsibilities to ensure the continuance of this public service. In the event of permanent closure, HIE would have responsibility for the costs of removal of equipment and re-instatement of the site of the funicular railway to a natural condition.

24. Financial Commitments

Highlands and Islands Enterprise has entered into commercial leases on certain properties and items of equipment. These leases have an average duration of between three and 20 years.

Future minimum payments due under non-cancellable operating leases:

Group	Property £000	Equipment £000	Total £000	2009 £000
Operating and similar leases which expire:				
Within one year	1,341	31	1,372	1,389
Within two to five years	4,539	-	4,539	4,852
In over five years	6,952	-	6,952	7,993
	12,832	31	12,863	14,234

HIE	Property £000	Equipment £000	Total £000	2009 £000
Operating and similar leases which expire:				
Within one year	1,340	29	1,369	1,388
Within two to five years	4,538	-	4,538	4,850
In over five years	6,952	-	6,952	7,993
	12,830	29	12,859	14,231

HIE has sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 31 March 2010 is £873,450 (2009 £558,035).

Future minimum rentals receivable under non-cancellable operating leases:

Highlands and Islands Enterprise holds office and manufacturing buildings as investment properties, which are let to third parties. These non-cancellable leases have remaining terms between one and 20 years

Group	Property £000	Equipment £000	Total £000	2009 £000
Operating and similar leases which expire:				
Within one year	3,524	-	3,524	4,237
Within two to five years	9,313	-	9,313	12,485
In over five years	11,805	-	11,805	16,905
	24,642	-	24,642	33,628

HIE	Property £000	Equipment £000	Total £000	2009 £000
Operating and similar leases which expire:				
Within one year	3,624	-	3,624	4,137
Within two to five years	9,713	-	9,713	12,085
In over five years	13,424	-	13,424	15,186
	26,761	-	26,761	31,408

25. Transactions involving Board members' registered interests

During the year the following transactions were made by Highlands and Islands Enterprise with businesses in which Highlands and Islands Enterprise board members had an interest:

Business	Approvals brought forward (£)	Amount approved/ (withdrawn) in year (£)	Amount paid in year (£)	Nature of transaction	Board member and interest
Scottish Association of Marine Science	677,425	10,030	157,560	Project grant	Mary Bownes - Board Member
Harper Macleod	-	40,735	40,735	Legal fees within a framework agreement	Lorne Crerar - Member
University of Glasgow	-	59	59	Delegate fees	Lorne Crerar - Part time Professor
Rocket Science UK Ltd	-	(17,167)	(17,167)	Credit for consultancy fees and networking event	William Roe - Chairman, Rocket Science UK Ltd

Other transactions taking place with organisations where HIE Board members remunerated:

William Roe is chairman of Skills Development Scotland for which he receives a remuneration. As from 16 August 2010 Mr Roe temporarily stood down from this position in order to undertake a review of vocational education for

the Scottish Government. A limited number of transactions took place between Highlands and Islands Enterprise and Skills Development Scotland, as part of a shared services arrangement, during the year to 31 March 2010. This arrangement has since come to an end. Mr Roe resigned as Chairman of Rocket Science Ltd on 30 June 2009.

Organisations which received funding in the year and in which the board members, key managerial staff or other related parties had a non-financial interest include:

**Argyll College
Speyside Whisky Festival**

26. Related party transactions

Highlands and Islands Enterprise is a Non-Departmental Public Body sponsored by the Scottish Government.

The Scottish Government is regarded as a related party. During the year, Highlands and Islands Enterprise has had various material transactions with the Scottish Government and with other entities for which the Scottish Government is regarded as the parent body.

In addition, Highlands and Islands Enterprise has had a small number of material transactions with other government

departments, central government bodies, local government, non-departmental public bodies and similar organisations.

Material transactions have taken place with:

**Aberdeenshire Council
Argyll & Bute Council
Comhairle Nan Eilean Siar
Crofters Commission
Forestry Commission
Glasgow City Council
NHS Highland
Orkney Islands Council
Scottish Enterprise**

**Scottish Executive
Scottish Natural Heritage
Shetland Islands Council
Skills Development Scotland
The Highland Council
The Moray Council
UHI Millennium Institute
Visit Scotland**

None of the Board members, key managerial staff or other related parties have undertaken any material transactions with Highlands and Islands Enterprise other than those disclosed in note 25.

27. Financial instruments

Highlands and Islands Enterprise has no borrowings. Funding for the activities of Highlands and Islands Enterprise is primarily provided by the Scottish Government in the form of grant-in-aid and therefore Highlands and Islands Enterprise is not exposed to liquidity risks. Assets and liabilities are materially denominated in sterling and as a consequence, exposure to currency risks is not material. Assessment of potential liabilities arising within the terms of FRS 25 has been undertaken during the year. Review work to reveal liability investments which require re-classification has indicated some fairly small, low level risk adjustments to date.

HIE does have some risk arising from its investments in financial instruments. The investments that HIE makes are commercial in nature, they comprise either subscription for shares or loans and full due diligence is undertaken in each case before a decision is taken. The due diligence process incorporates a comprehensive risk assessment, in the case of share investments focussing particularly on potential exit routes for HIE, and the identification of likely opportunities for HIE to sell shares acquired. However, the nature of the instrument - risk capital - means that no exit route can be guaranteed at the outset and there is inherent risk involved. Similarly, for loans, although a repayment schedule will be agreed, there will always be a risk that the borrower becomes unable to repay.

To mitigate these risks, the clients receiving funds from HIE in this way are account managed to ensure that frequent accurate and up to date information on their financial position and outlook is obtained. This in turn enables action to be taken (e.g. advice, signposting, training, recruitment of staff) to help the clients improve their position. By strengthening the clients in this way, HIE aims to reduce the risk of non-repayment of loans. For companies where we have bought shares, the goal is to ensure the business is strong enough for another party to wish to buy HIE's shares. Other than this on-going close relationship and provision of additional support where necessary, there is little other action that can be taken to mitigate the risks associated with using these types of financial instruments.

28. Explanation of the transition to IFRS

2010 is the first year that HIE is presenting its financial statements under IFRS with a modified accounts direction. The last consolidated financial statements presented under UK GAAP were for the year ended 31 March 2009. As IFRS requires comparative figures for the year ended 31 March 2009 the date of transition was 1st April 2009.

The only changes to the cash flow statements are presentational. Reconciliations of the 2009 income statement and balance sheet from UK GAAP as previously reported to IFRS as modified by the accounts direction and FReM are set out on pages 58 to 62.

The principle adjustments are explained below:

1. Under IAS 19 employee benefits are recognised in the income statement when they are earned, rather than when they are paid.
2. Under IAS 17 lease incentives and rent free periods are amortised over the full lease term. Under UK GAAP lease incentives were amortised over the period to the first rent review.
3. Under IAS 16 land and buildings are reviewed separately when assessing whether a lease is a finance lease or operating lease.
4. Under IFRS 5 operating properties which are held for resale should be separately measured and disclosed on the statement of financial position.
5. Under IAS 32 investments are required to be reclassified as either financial assets equity or loans and receivables.
6. Under IAS 39 equity assets are required to be valued at fair value, loans and receivables require to be valued at amortised cost.
7. Under IAS 17 a finance lease is a lease where the present value of the future lease payments is greater than the fair value of the lease asset at the inception of the lease.
8. Under IAS 20 grants received for capital assets should be amortised over the life of the asset.
9. Under IAS 16 property held for own use should be depreciated over the property's useful life.
10. Under IAS 16 property, plant and equipment is required to be held at fair value.
11. Under IAS 20 government grants are capitalised and amortised over the life of the asset for which the grant has been provided.
12. Under IAS 28 Investments in associates are to be shown at fair value.
13. The correction of the incorrect classification of pension assets.

Reconciliation of group net expenditure statement for the year ended 31 March 2009

	UK GAAP 2009	Accrued employee benefits	Lease incentives	De- recognition of capitalised land	Re-class investments for resale	Revaluation of investments	Finance leases	Deferred grants	Depreciation	Revaluation of asset	ERDF opening adjustment	Revaluation of associates	UK GAAP adjustments	Final IFRS 2009
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments	17,259	1	2	3	4	5	6	7	8	9	10	11	12	13
Income from operating activities	17,259							41				846	(33)	18,113
Expenditure on operating activities	(61,161)									(5,732)				(66,893)
Continuing operations	-													
Discontinuing operations	(61,161)									(5,732)				(66,893)
Administration and management charges	(21,818)	(82)	(57)			279			(1,017)		202			(22,493)
Continuing operations	(1,300)													(1,300)
Discontinuing operations	(23,118)	(82)	(57)			279			(1,017)		202			(23,793)
Excess of expenditure over income on operating activities	(67,020)	(82)	(57)			279		41	(1,017)	(5,732)	1,048	(33)		(73,573)
Share of associates' operating profit/(loss)	(326)													(326)
Notional interest charge	(1,723)													(1,723)
Investment income	(745)													(745)
Share of associates' investment income	4													4
Interest payable	(47)													(47)
Net operating cost before taxation	(69,857)	(82)	(57)			279		41	(1,017)	(5,732)	1,048	(33)		(75,410)
Taxation	(5)													(5)
Net operating cost after taxation	(69,862)	(82)	(57)			279		41	(1,017)	(5,732)	1,048	(33)		(75,415)

Reconciliation of group statement of financial position

as at 31 March 2008

	1	2	3	4	5	6	7	8	9	10	11	12	13	Final IFRS 2008	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
	UK GAAP 2008	Accrued employee benefits	Lease incentives	De-recognition of capitalised land	Re-class assets held for resale investments	Re-class investments	Revaluation of investments	Finance leases	Deferred grants	Depreciation	Revaluation of asset	ERDF Opening Adjustment	Revaluation of associates	UK GAAP adjustments	Final IFRS 2008
Adjustments															
Non-current assets															
Property, plant and equipment	43,164		(10)	(2,856)						6,340					46,653
Intangible assets	-														-
Investments	8,220			(7,918)	(302)										-
Investment in associate	842			7,918											842
Financial assets	-														7,918
Total non current assets	52,226	-	(10)	(2,856)	-	(302)	15	-	-	6,340	-	-	-	-	55,413
Current assets															
Inventories	-														
Trade and other receivables	10,395														10,395
Cash and cash equivalents	3,195														3,195
Assets classified as held for sale	-			2,798											2,798
Total current assets	13,590	-	-	2,798	-	-	-	-	-	-	-	-	-	-	16,388
Current liabilities															
Trade and other payables falling due within year	12,248	329	(10)				15								12,582
Net current assets	1,342	(329)	10	2,798	-	-	(15)	-	-	-	-	-	-	-	3,806
Total assets less current liabilities	53,568	(329)		(58)		(302)	-			6,340					59,219
Trade and other payables falling due after more than one year	2,264	(181)													2,445
Retirement benefit obligation	51,304	(329)	(181)	(58)	(302)	(302)	-			6,340					56,774
Net assets	15,614														15,614
Reserves	35,690	(329)	(181)	(58)	(302)	(302)	-			6,340					41,160
Revaluation reserve	76														76
Other reserve	400														400
Pension reserve	(15,614)														(15,614)
Government grants	-							1,391							1,391
General reserve	50,828	(329)	(181)	(58)	(302)	(302)	-	(1,391)		6,340					54,907
	35,690	(329)	(181)	(58)	(302)	(302)	-	(1,391)		6,340					41,160

Reconciliation of HIE Statement of financial position as at 31 March 2008

	UK GAAP 2008	Accrued employee benefits	Lease incentives	De- recognition of capitalised land	Re-class assets held for resale	Re-class investments	Revaluation of investments	Finance leases	Deferred grants	Depreciation	Revaluation of asset	ERDF Opening adjustment	Revaluation of associates	UK GAAP adjustments	Final IFRS 2008
Adjustments	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non-current assets															
Property, plant and equipment	42,526	-	-	(10)	(2,856)	15	6,341	-	-	-	-	-	-	-	46,016
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	7,358	-	-	-	(7,023)	(335)	-	-	-	-	-	-	-	-	-
Investment in associate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Assets	-	-	-	-	7,023	-	-	-	-	-	-	-	-	-	7,023
Total non current assets	49,884	-	-	(10)	(2,856)	15	6,341	-	-	-	-	-	-	-	53,039
Current assets															
Inventories	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade and other receivables	15,682	-	-	-	-	-	-	-	-	-	-	-	-	74	15,756
Cash and cash equivalents	2,276	-	-	-	2,798	-	-	-	-	-	-	-	-	-	2,276
Assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,798
Total current assets	17,958	-	-	-	2,798	-	-	-	-	-	-	-	-	74	20,830
Current liabilities															
Trade and other payables: amounts falling due within one year	17,150	329	-	(10)	-	15	-	-	-	-	-	-	-	-	17,484
Net current assets	808	(329)	-	10	2,798	(15)	-	-	-	-	-	-	-	74	3,346
Total assets less current liabilities	50,692	(329)	-	-	(58)	-	6,341	-	-	-	-	-	-	74	56,385
Trade and other payables: amounts falling due after more than one year	2,264	181	-	-	-	-	-	-	-	-	-	-	-	-	2,445
Retirement benefit obligation	48,428	(329)	(181)	-	(58)	-	(335)	-	-	-	6,341	-	-	74	53,940
Net assets	14,643	(329)	(181)	-	(58)	-	(335)	-	-	-	6,341	-	-	74	14,643
Reserves															
Revaluation reserve	76	-	-	-	-	-	-	-	-	-	-	-	-	-	76
Other reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pension reserve	(14,643)	-	-	-	-	-	-	-	-	-	-	-	-	(14,643)	
Government grants	-	-	-	-	-	-	-	1,391	-	-	-	-	-	1,391	
General reserve	48,352	(329)	(181)	-	(58)	-	(335)	-	(1,391)	-	6,341	-	-	74	52,473
Total Reserves	33,785	(329)	(181)	-	(58)	-	(335)	-	-	-	6,341	-	-	74	39,297

Reconciliation of HIE Statement of financial position as at 31 March 2009

	UK GAAP 2009	Accrued employee benefits	Lease incentives	De- recognition of capitalised land	Re-class assets held for resale	Re-class investments	Revaluation of investments	Finance leases	Deferred grants	Depreciation	Revaluation of asset	ERDF Opening adjustment	Revaluation of associates	UK GAAP adjustments	Final IFRS 2009
Adjustments	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non-current assets															
Property, plant and equipment	45,716	-	-	(10)	(1,183)	10	2,058	(1,017)	608					(24)	46,158
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	4,413	-	-	-	(4,358)	(55)	-	-	-	-	-	-	-	-	-
Investment in associate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets	-	-	-	-	4,358	-	-	-	-	-	-	-	-	-	4,358
Total non current assets	50,129	-	-	(10)	(1,183)	(55)	2,058	(1,017)	608	-	-	-	-	(24)	50,516
Current Assets															
Inventories	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade and other receivables	12,000	-	-	-	-	-	-	-	-	-	-	-	-	74	12,074
Cash and cash equivalents	2,153	-	-	-	1,125	-	-	-	-	-	-	-	-	-	2,153
Assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,125
Total current assets	14,153	-	-	-	1,125	-	-	-	-	-	-	-	-	74	15,352
Current liabilities															
Trade and other payables: amounts falling due within one year	14,622	411	-	(10)	-	10	-	-	(202)	-	-	-	-	-	14,831
Net current assets	(469)	(411)	-	10	1,125	(10)	-	-	202	-	-	-	-	74	521
Total Assets less Current Liabilities	49,660	(411)	-	-	(58)	(55)	2,058	(1,017)	608	202	202	202	-	50	51,037
Trade and other payables: amounts falling due after more than one year	2,143	-	238	-	-	-	-	-	-	-	-	-	-	-	2,381
Retirement benefit obligation	47,517	(411)	(238)	-	(58)	(55)	2,058	(1,017)	608	202	202	202	-	50	48,656
Net assets	23,489	(411)	(238)	-	(58)	(55)	2,058	(1,017)	608	202	202	202	-	50	24,628
Reserves															
Revaluation reserve	117	-	-	-	-	-	-	-	-	-	-	-	-	-	117
Other reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pension reserve	(24,028)	-	-	-	-	-	-	-	-	-	-	-	-	(24,028)	
Government grants	-	-	-	-	-	-	3,407	(1,017)	608	202	202	202	-	50	3,407
General reserve	47,400	(411)	(238)	-	(58)	(55)	(1,349)	(1,017)	608	202	202	202	-	50	45,132
Total Reserves	23,489	(411)	(238)	-	(58)	(55)	2,058	(1,017)	608	202	202	202	-	50	24,628

Accounts Direction by the Scottish Ministers

1. The Scottish Ministers, in pursuance of Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2010, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the Income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year. Additional disclosure requirements are set out in Schedule 1 to the right.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 14 December 2005 is hereby revoked.

Signed by the authority of the Scottish Ministers

Mary McAllan,
Head of Enterprise Policy Delivery Division
10 June 2010

SCHEDULE 1

ADDITIONAL DISCLOSURE REQUIREMENTS

1. The notes to the accounts shall include a schedule of all investments showing:
 - 1.1. In respect of companies in which Highlands and Islands Enterprise holds 20% or more of the voting rights and where the total investment (including loans) is in excess of £100,000:
 - Name of company
 - Nature of its business
 - Percentage of voting rights held
 - Amount invested in shares (distinguishing between ordinary and preference shares)
 - Amount of loan given to each company
 - Any other commitments in respect of each company
 - 1.2. In respect of companies in which Highlands and Islands Enterprise holds less than 20% of the voting rights but where the total investment (including loans) is in excess of £1,000,000:
 - Name of company
 - Nature of its business
 - Percentage of voting rights held
 - Amount invested in shares (distinguishing between ordinary and preference shares)
 - Amount of loan given to each company
 - Any other commitments in respect of each company
 - 1.3. In respect of all other investments by Highlands and Islands Enterprise:
 - Total number of companies involved
 - Total amount invested
 - Total amount of loans given
 - Total amount of any other commitments

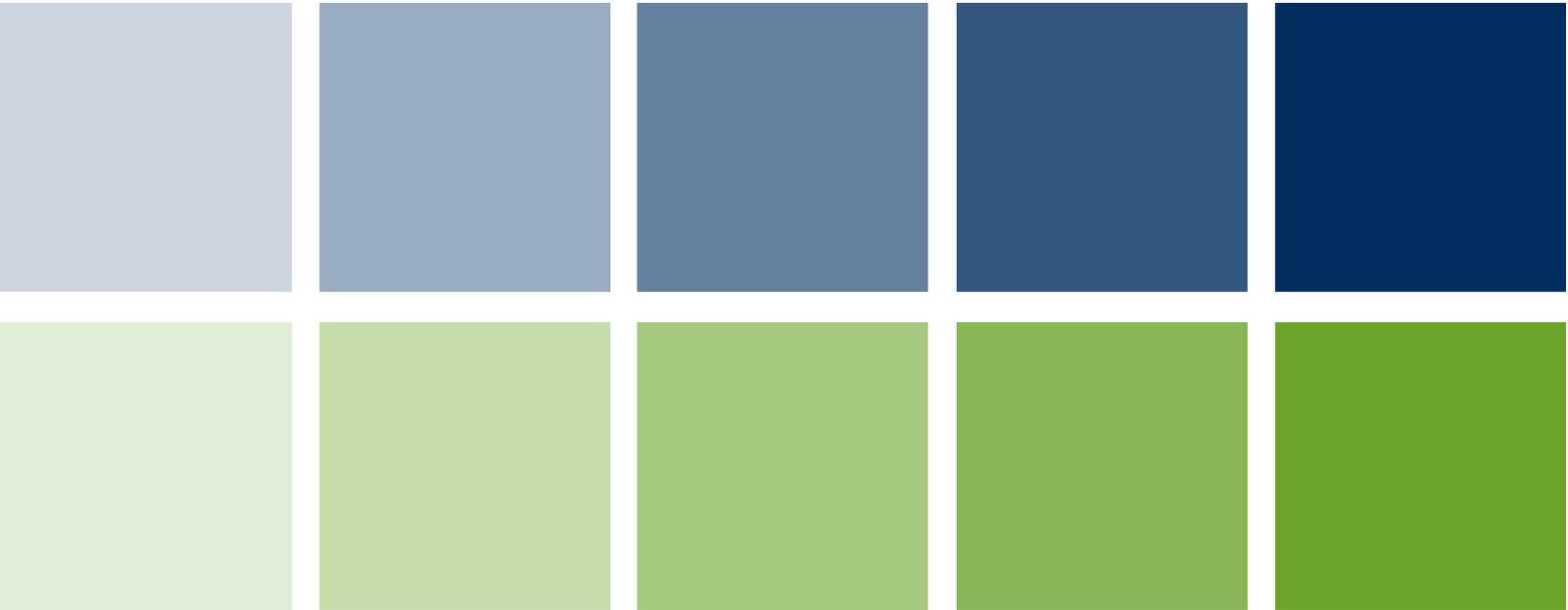


Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

Designed, written and edited by HIE.



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean



Cowan House
Inverness Retail and Business Park
Inverness IV2 7GF

t. +44 (0)1463 234 171
f. +44 (0)1463 244 469
e. info@hient.co.uk

www.hie.co.uk

