HIGHLANDS AND ISLANDS AIRPORTS LIMITED

ANNUAL REPORT AND ACCOUNTS
1995/1996

DIRECTORS

Peter J Grant, Chairman
Hugh M Lawson, Managing Director
William K Semple
W Francis F Hamilton (appointed 1.6.95)

SECRETARY

A John Burns (appointed 1.4.95)

REGISTERED OFFICE

Inverness Airport,
Inverness IV1 2JB

AUDITORS

Ernst & Young
Moray House, 16 Bank Street,
Inverness IV1 1QY

Registered No. 97647

Highlands and Islands Airports Limited was incorporated on 4 March 1986 in Edinburgh as a private limited company under the Companies Act 1985.

Until 1 April 1995, the company was a wholly owned subsidiary of the Civil Aviation Authority, a body governed by the Civil Aviation Act 1982. On 1 April 1995 ownership of the company passed to the Secretary of State for Scotland.

The company is responsible for the management and operation of ten airports in the Highlands and Islands of Scotland - Barra, Benbecula, Campbeltown, Inverness, Islay, Kirkwall, Stornoway, Sumburgh, Tiree and Wick. The airports provide these otherwise remote communities with vital social, business and welfare links.

The airports are licensed for public use with the exception of Barra, which is licensed for ordinary use.

The company receives grants from the Secretary of State for Scotland in accordance with Section 34 of the Civil Aviation Act 1982.

The Annual Report and Accounts have been submitted to the Secretary of State for Scotland.

CHAIRMAN'S STATEMENT

This annual report our first under the ownership of The Scottish Office - differs from our previous reports in that it now includes a review by the managing director. The airports still report on their individual activities but the managing Director's report complements these and also looks forward.

We can look forward with the certainty of our ownership clarified and I welcomed the Secretary of State's decision early in 1996 when he said "that the present arrangements for HIA represent the most effective and satisfactory way of providing support for essential airport services in the Highlands and Islands." He also confirmed that the management and organisation of the business would remain in the Highlands.

The Secretary of State's review was an opportune moment for us to look at where efficiency gains and quality of service targets might now apply for the company. This is in hand and is covered by the managing director in his report, but I wish to reinforce that it will require not only rethinking what we do and how we do it, but changes in attitude and practices. I am not at all sure that there is a deep enough recognition that we are a public service whose obligations are to the travelling public, the airlines, the local communities and not least to the tax payer.

The presentation of our accounts is also noticeably different. You will see the detail in the accounts and the report of the directors, but I wish to highlight that the total level of government funding was £7.8 million in 1995/96 compared to £8 million in the previous year. I am satisfied with this slight drop in real terms of government funding, but our operating costs are high. The runway work at Kirkwall cost £2 million and there were further costs at Inverness since the runway work there covered two years. These accounts should be read in the knowledge that these costs relate to the (typically) seven year life of such works rather than to a single financial year.

Another noteworthy point is the swing from profit in 1995/95 to a loss in 1995/96. This could easily be misinterpreted. As a result of the changing ownership of the company, we have taken the opportunity to re-align government funding with the company's expenditures more accurately. The total funding received of £7.8 million is now split, as disclosed in the profit and loss account, between revenue grant and capital grant to fund capital assets.

In his February statement, the Secretary of State asked me to look at the Private Finance Initiative for the design, construction, funding and maintenance of the Inverness terminal building. This building is essential and I am happy to do this. The significance of PFI as a procurement method of a public sector facility is recognised by the company. We are actively pursuing the process and hope to report on the feasibility of PFI for the terminal in the autumn. The provision of other major services through PFI projects is also under consideration.

Chevron's decision in September 1995 to relocate their air services from Unst triggered a discussion of the air services for Shetland oil-related flights to and from the East Shetland Basin. We offered advice to Shetland Islands Council on the needs of the industry, arguing for rationalisation of the airports in the islands, concentrated on Sumburgh, with Unst as a diversion facility. Shetland Islands Council decided, however, to extend operations at Scatsta to BP and Chevron from 1 April 1996 to allow a limited number of oil-related flights. This now results in a loss of income at Sumburgh

Separate from the Secretary of State's other decisions, he asked the company to take-over, following the withdrawal of the Royal Air Force, the operation of the airfield at RAF Machrihanish from April 1996 to ensure the continuation of airport facilities for the air service from Glasgow. The company successfully completed the take-over on 31 March. You will see that this airport - our tenth which we have renamed Campbeltown - now shows in the accounts.

In conclusion I see the year's results as mixed. Government funding dropped slightly but operational costs rose sharply. Consequently, we must seek higher levels of efficiency and more economic ways of operating. This will mean change within the company and everyone must play their part. All staff have worked hard and well, and I am grateful to them and thank them most sincerely. Next year we must improve our services to passengers, airlines and local communities and, in that now overused but nevertheless appropriate phrase, deliver "value for money" at all levels in Highlands and Islands Airports.

Peter Grant
Chairman

MANAGING DIRECTOR'S REVIEW

There were four key features in 1995/96 - ownership, passenger numbers and quality of service, Scottish Office funding and investment, and regulations and safety management.

The Secretary of State's decision to retain ownership of the company and maintain the management as at present, here in the Highlands, was well received, as was his decision for us to take over the management of RAF Machrihanish, now Campbeltown Airport, on 1 April 1996. This gave us our tenth airport in our tenth year of business. I must commend the HIA staff who were given little time to complete a complex hand-over but who met the deadline.

We recorded our highest level of scheduled passengers and substantial numbers of oil-related passengers, giving us our highest total of traffic in our ten years of business. The rise in scheduled passenger numbers is encouraging, although it is not on the scale of regional airports in the rest of the country and we still lose routes for reasons other than passenger numbers. During the last year we lost the direct Inverness-Manchester route, and reinstated by British Airways, through Glasgow. The growth has justified our recent investment decisions in the provision of better facilities for passengers and airlines. This will be taken on with further improvements in the quality of service we provide. The lower scale of Highlands and Islands Airports' growth is due to the smaller population and the weaker and more narrowly based economy. The airports do, however, provide the essential air services that assist The Scottish Office in its broader objectives of economic development of the area.

If passenger numbers follow the national pattern, I expect a levelling off for the next few years as business consolidates. Any growth is likely to be in leisure passengers. The position regarding oil-related passengers at Sumburgh is, regrettably, in decline. There was no growth in the year because the number of Shell personnel off-shore, as anticipated, fell. It was not anticipated that oil-related flights would be permitted to use Scatsta. Following this decision, we have had to reduce our forecasts of oil-related traffic at Sumburgh. This will have a substantial effect on future income, which we are now taking into consideration.

The financial out-turn for the year shows that government funding is slightly down by £200,000, which reverses the increases of previous years. The reduction was in spite of a further rise in regulatory costs and the start-up costs associated with the management of a tenth airport. We also had some one-off costs which arose during the transfer of ownership from the Civil Aviation

Authority and some major staff changes due to early retirements and the dispensing of some posts. Long serving members of staff who left the company during the year were Bob Mathieson, Barry Stevens, Margaret Leslie, Willie Johnston and Geordie Leslie at Sumburgh; Willie MacLeod at Stornoway and George Innes, Jackie Ross, Ronnie Boyd, Richard Hindley and Sandy Shanks at Inverness. I should like to thank them for their long and excellent, professional service.

You will note a sharp rise in operating costs due to the very major and operationally essential repairs at Kirkwall and Inverness. However, we wish to contain such costs in future and shall be embarking on a wide ranging programme of efficiencies over the next three years.

Efficiencies are essential but they will not constrain our key investment requirements which will be approached through the Private Finance Initiative. As we had done some preparatory work on this before the Secretary of State's statement, we were in a position to react quickly to his decision to proceed with the PFI provision of the Inverness terminal building. I welcomed this decision. There may also be other opportunities for PFI.

In balancing our investment requirements with our resources, we must continue to be rigorous in our business decisions on expenditure, but increasing regulations have seriously affected costs. We must seek with the regulators a less universal application of CAA requirements and one which recognises the resources available to HIA, and the nature of the environment in which we operate. There is a move towards this in airport management. From this we shall be seeking more efficient use of resources in facilities, operations and personnel.

Equally, we must use our in-house resources in the most competent and economic way. This will require the participation, in both large and small ways, of all the staff and a recognition of the need for change. I am encouraged that assistance will be given because this year the staff have been extensively involved in the company's safety management programme. I should like to thank them specifically for their work on this and for their work generally. A co-operative effort will make us more efficient and ensure our future as HIA.

The results which follow, and the decisions by government regarding the company, augur well for the future.

Hugh Lawson
Managing Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;

- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors submit their Report and Accounts for the period 1 April 1995 to 31 March 1996.

RESULTS AND DIVIDENDS

The trading loss for the period, after taking account of taxation, amounted to £1,551,000. The directors recommend that no dividend is paid, leaving the full amount to be set against reserves.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENT

On 1 April 1995 ownership of the Company transferred from the Civil Aviation Authority to the Secretary of State for Scotland.

Funding totalling £7,800,000 made up of a revenue grant of £4,710,000 and a capital grant of £3,090,000 was received from the Secretary of State for Scotland in accordance with Section 34 of the Civil Aviation Act 1982 for the year to 31 March 1996.

Overall passenger numbers showed a further increase during the year. Non oil-related passenger numbers and aircraft movements each rose by one per cent. The decline in passenger numbers at Kirkwall has been arrested. Growth at Inverness was slowed by the withdrawal from April 1995 of the Business Air schedules.

During the latter part of the year, considerable planning and preparatory work took place in preparation for the management by the company of Campbeltown Airport from 1 April 1996.

At Barra a local referendum has been held seeking views on the provision of a fixed runway on the island.

At Benbecula the refurbishment work at the Royal Artillery range has led to a reduction in aircraft movements.

Passenger numbers at Inverness in total held steady despite the loss of the direct Inverness - Manchester flight operated by Business Air. The new air traffic control tower building and runway approach lighting were completed. Planning has commenced for the extension of the Inverness terminal building. It is anticipated this will be constructed and financed with a suitable consortium under the rules of the government's Private Finance Initiative.

At Islay passenger numbers showed a small decline despite an overall increase in aircraft movements.

Kirkwall passenger numbers held steady and some oil related traffic was handled. The increased loss at Kirkwall of £2.7 million included expenditure on major refurbishment of the main runway at a cost of £1.9 million..

At Stornoway passenger numbers were maintained and an increased level of military movements was seen.

Sumburgh domestic and oil-related passenger numbers showed small increases. The easing of restrictions on oil-related traffic at Scatsta Airport with effect from April 1996 will significantly depress revenue at Sumburgh. This anticipated reduction will not be capable of being matched by reduced costs.

At Tiree passenger numbers and aircraft movements showed a significant decline as a result of changes to scheduled operations.

Wick domestic passenger numbers and movements showed significant improvements and oil-related traffic continued to contribute to the income of the airport.

In the year a tax loss was incurred by the company and Corporation Tax will not be payable.

FIXED ASSETS

Investment in new tangible fixed assets amounted to £3,025,000.

At Inverness, work which had commenced last year on the new control tower building and on re-surfacing and extending apron areas was completed at a cost of £114,000 and £510,000 respectively. The old air traffic control tower was demolished.

The Inverness fire training ground was relocated and reconstructed at a cost of £241,000. Expenditure of £324,000 was incurred on the new ground lighting system at Inverness and further capital expenditure of £121,000 took place on the southern emergency access road.

In the run up to the management of Campbeltown airport, preliminary expenditure was incurred on provision of facilities, operational control and the first permanent personnel.

At Islay and at Tiree three-storey visual control rooms to fulfil regulatory requirements were completed.

Work which had commenced at Sumburgh in the previous year on improvements to check-in and baggage handling areas was completed at a cost of £357,000.

Orders were placed for two Predator fire appliances.

GRANTS

Grant assistance of £12,403 towards the cost of runway 08/26 lighting at Wick was received from Caithness and Sutherland Enterprise.

Grant assistance of £268,558 is receivable from the European Regional Development Fund in respect of capital expenditure previously incurred on Islay and Wick DMEs, Stornoway Visual Control Room, Kirkwall apron construction and the Sumburgh check-in and baggage handling areas.

PERSONNEL

Staff Movements

Staff numbers at the year end decreased from 194 to 192. Over the course of the year twenty-two staff were appointed to fill permanent and part-time vacancies and three staff were appointed to relief positions. Where appropriate temporary staff or staff on short term contracts were employed. In addition, sixteen staff left the Company due to retirements, voluntary redundancies, and medical retirements and a further eight staff resigned during the year. Twenty-two members of staff were promoted, mostly to fill posts vacated due to the retirement of a number of long serving staff.

TRAINING AND DEVELOPMENT

The regular phased training of Fire service personnel continued at the International Fire Training Centre. Operational training was organised on an on-going basis. Specific training requirements for non Fire service personnel were organised as appropriate.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year to 31 March 1996 and subsequently are:

Peter J Grant, Chairman

Hugh M Lawson, Managing Director

W Francis F Hamilton, Director (appointed 1.6.95)

William K Semple, Director

None of the directors had an interest in the share capital of the Company.

By order of the board

A JOHN BURNS
Secretary
14 June 1996

PROFIT AND LOSS ACCOUNT

FOR THE YEAR 1 APRIL 1995 TO 31 MARCH 1996

	Note	1996 £000	1995 £000
TURNOVER			
Traffic operations and other charges		11,300	10,793
Scottish Office Funding		7,800	8,000
Less: Capital grant carried to Deferred Income		3,090	-
Revenue Grant	(2)	4,710	8,000
		16,010	18,793
DIRECT OPERATING COSTS		16,480	14,891
GROSS (LOSS) PROFIT		(470)	3,902
ADMINISTRATIVE EXPENSES		1,630	1,426
OPERATING (LOSS) PROFIT	(3)(4)	(2,100)	2,476
EXCEPTIONAL ITEM	(5)	-	1,170
INTEREST RECEIVABLE	(6)	74	325
(LOSS) PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		(2,026)	1,631
TAX ON (LOSS) PROFIT ON ORDINARY ACTIVITIES	(7)	(475)	910
(LOSS) PROFIT FOR THE FINANCIAL YEAR	(8)	(1,551)	721

RECOGNISED GAINS AND LOSSES:

There are no other gains or losses other than the loss attributable to the shareholders of the company of £1,551,000 in the year ended 31 March 1996 and the profit of £721,000 in the year ended 31 March 1995.

The notes on pages 16 to 26 form part of these accounts

BALANCE SHEET
AS AT 31 MARCH 1996

	Note	£000	1996 £000	1995 £000
FIXED ASSETS				
Tangible assets	(9)		17,550	16,232
Investments	(10)		50	50
			17,600	16,282
CURRENT ASSETS				
Debtors	(11)	1,709		1,228
Cash in hand		475		2,022
		2,184		3,250
CREDITORS: Amounts falling due within one year	(12)	1,710		1,931
NET CURRENT ASSETS			474	1,319
TOTAL ASSETS LESS CURRENT LIABILITIES			18,074	17,601
PROVISION FOR LIABILITIES AND CHARGES	(13)		1,073	2,229
ACCRUALS AND DEFERRED INCOME				
Deferred Government grants	(14)		4,296	1,116
			12,705	14,256
CAPITAL AND RESERVES				
Share capital	(15)		50	50
Profit and loss account			12,655	14,206
TOTAL SHAREHOLDERS FUNDS			12,705	14,256

Peter Grant, **CHAIRMAN**

H M Lawson, **MANAGING DIRECTOR**
14 June 1996

The notes on pages 16 to 26 form part of these accounts

CASH FLOW STATEMENT

FOR THE YEAR 1 APRIL 1995 TO 31 MARCH 1996

	Note	£000	1996 £000	£000	1995 £000
NET CASH (OUTFLOW) INFLOW FROM ACTIVITIES	(17)		(1,602)		3,926
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received			74		325
TAXATION					
Corporation tax paid			-		(591)
INVESTING ACTIVITIES					
Purchase of tangible fixed assets		(3,130)		(4,628)	
Sale of tangible fixed assets		8		23	
Receipt of Government grants		3,103		23	
Decrease (increase) in intercompany loan		-		2,825	
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES			(19)		(1,757)
NET CASH (OUTFLOW) INFLOW			(1,547)		1,903
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(18)		(1,547)		1,903

The notes on pages 16 to 26 form part of these accounts

BASIS OF PREPARATION

1. ACCOUNTING POLICIES

1.1 Accounting Conventions

The accounts are prepared in accordance with the historical cost convention and in accordance with applicable accounting and financial reporting standards.

1.2 Government Grants

Grants in respect of capital expenditure are credited to a deferred income account and released to profit and loss account over the estimated useful lives of the relevant assets.

Grants for revenue expenditure are separately disclosed within turnover in the period to which they relate.

1.3 Pension Costs

The cost of providing pension benefits is charged to the profit and loss account so as to spread the cost over the employees' working life with the company.

1.4 Leases

The rentals on operating leases are charged to the profit and loss account as incurred.

1.5 Tangible Fixed Assets

Tangible fixed assets are stated at cost.

Depreciation is provided on tangible fixed assets to spread the cost by equal annual instalments over their estimated useful lives, as follows:

Freehold buildings	20 years
Leasehold land and buildings over the remaining life of the lease to a maximum of 20 years	
Navigational aids	7 years
Plant and other equipment	3-10 years
Vehicles	5 years
Runways, aprons and main services	25 years

The following categories of tangible fixed assets are not depreciated:

Freehold land

Furniture, fixtures and fittings

Initial purchases of furniture, fixtures and fittings are treated as tangible fixed assets; replacement expenditure is charged to the profit and loss account. Items which are disposed of and not replaced are eliminated from tangible fixed assets.

1.6 Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences - including those relating to pensions and other post-retirement benefits - to the extent that they are expected to reverse in the future without being replaced. The provision for deferred taxation is calculated at the rate at which it is anticipated the timing differences will reverse.

1.7 Basis of Consolidation

Under the provisions of Section 229(2) of the Companies Act 1985, the results of the subsidiary undertaking Airport Management Services Limited for the year ended 31 March 1996 have not been consolidated.

2. TURNOVER

Turnover represents the amounts received and receivable (stated net of value added tax) in respect of continuing services provided to customers.

A revenue grant of £4,710,000 was received from the Secretary of State for Scotland in accordance with Section 34 of the Civil Aviation Act 1982.

3 OPERATING RESULTS - YEAR TO 31 MARCH 1996

	Total Activities		Grant received from SO		Barra		Benbecula		Inverness		Islay	
	1996 £000	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000
Turnover												
Airport charges	10,095	9,590	-	-	76	76	376	382	2,077	2,062	111	128
Other income	1,205	1,203	-	-	4	4	38	39	455	479	16	25
Grant received from SO	4,710	8,000	4,710	8,000	-	-	-	-	-	-	-	-
	16,010	18,793	4,710	8,000	80	80	414	421	2,532	2,541	127	153
Operating costs												
Staff costs	6,062	6,402	-	-	232	211	460	438	1,689	2,021	285	267
Property rates	775	733	-	-	3	2	38	39	195	186	16	16
Security,utilities,materials	2,452	2,103	-	-	42	50	210	128	578	514	94	75
Repairs and maintenance	5,077	3,944	-	-	60	59	229	177	957	2,236	123	95
Net depreciation	1,510	1,258	-	-	17	11	120	110	347	203	87	78
Other operating costs	2,234	1,877	-	-	102	139	100	70	367	456	51	30
	18,110	16,317	-	-	456	472	1,157	962	4,133	5,616	656	561
Operating profit/ (loss)	(2,100)	2,476	4,710	8,000	(376)	(392)	(743)	(541)	(1,601)	(3,075)	(529)	(408)

Kirkwall		Stornoway		Sumburgh Non Oil-related Activities		Sumburgh Oil-related Activities		Tiree		Wick		Campbeltown	
1996	1995	**1996**	1995	**1996**	1995	**1996**	1995	**1996**	1995	**1996**	1995	**1996**	1995
£000	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
658	614	654	628	1,094	1,029	4,568	4,274	52	93	429	304	-	-
75	76	40	43	58	60	461	425	17	18	41	34	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
733	690	694	671	1,152	1,089	5,029	4,699	69	111	470	338	-	-
												Preliminary Startup Costs	
759	680	540	562	483	501	734	917	182	205	673	600	25	-
69	61	99	85	84	73	219	219	10	9	42	43	-	-
202	189	132	154	159	173	794	624	57	65	124	131	60	-
2,108	207	217	107	211	128	563	377	198	298	205	260	206	-
143	125	145	143	141	134	286	259	59	28	165	167	-	-
223	106	79	59	122	196	990	697	51	54	120	70	29	-
3,504	1,368	1,212	1,110	1,200	1,205	3,586	3,093	557	659	1,329	1,271	320	-
(2,771)	**(678)**	**(518)**	**(439)**	**(48)**	**(116)**	**1,443**	**1,606**	**(488)**	**(548)**	**(859)**	**(933)**	**(320)**	-

	1996	1995
	£000	£000
4. OPERATING PROFIT		
This is stated after charging		
Depreciation	1,701	1,364
Auditors' remuneration	8	8
Non-audit fees payable to auditors	52	4
Hire of plant and machinery	54	34

4.1 Directors' Emoluments

Emoluments		
(including pension contributions)	96	79

The 1996 figure includes a bonus of £2,700 (1995:£2,500)

Directors' emoluments, excluding pension contributions, fell within the following ranges:

	1996	1995
	No	No
£ nil - £5,000	1	2
£5,001 - £10,000	1	1
£15,001 - £20,000	1	-
£60,001 - £65,000	1	1

The emoluments of the chairman, including pension contributions, were £16,600 (1995: £8,562 plus £8,038 met by the Civil Aviation Authority) and of the highest paid director, £70,714 (1995: £69,806).

	1996	1995
	£000	£000
4.2 Staff Costs		
Wages and salaries	4,375	4,151
Exceptional costs: severance and one-off pay award	186	611
Social security costs	350	364
Pension costs (note 4.3)	765	903
Other staff costs	386	373
	6,062	6,402

The average number of employees during the period was 195 (1995: 190).

Pension costs include amounts paid for enhancement of the pension scheme for early retirements. The 1995 figure has been restated to reflect this.

		1996	1995
		£000	£000
4.3	Pension Costs		
	Ordinary contributions to the pension scheme	598	619
	Other contributions: pension enhancements	167	284

When ownership of the company was transferred from the Civil Aviation Authority to the Secretary of State for Scotland on 1 April 1995, the company continued to participate in the Civil Aviation Authority Pension Scheme on a "non-associated employer" basis.

The Pension costs are assessed in accordance with the advice of a professional qualified actuary using the attained age method. The latest actuarial assessment of the scheme was as at 31 December 1993. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 2% higher than the annual increase in the level of salaries and 3.5% higher than the annual increase in present and future pensions.

At the date of the latest actuarial valuation the market value of the assets notionally apportioned to the Company was £20,762,000.

The actuarial value of the assets is sufficient to cover 110% of the benefits that had accrued to members, after allowing for expected future increases in earnings. This surplus would be eliminated by 2012 at an employer's contribution rate of 15.5% of earnings. Contributions to the pension scheme are calculated at a rate of 15.5% (1995: 15.0%) of pensionable salaries.

		1996	1995
		£000	£000
5.	EXCEPTIONAL ITEM		
	Intercompany loan written off	-	1,170

	1996	1995
	£000	£000

6. INTERESTRECEIVABLE

Interest receivable includes:		
Interest received from CAA	-	214

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

Based on result for the year		
Corporation tax at 33%	-	-
Corporation tax at 33% offset under group relief against the tax loss of the parent undertaking	-	1,012
Deferred taxation (note 13)	(475)	(97)
	(475)	915
Corporation tax (over) provided in previous years	-	(5)
	(475)	910

8. SHARE CAPITAL, MOVEMENT ON RESERVES AND RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital	Profit and Loss account	Total Shareholders Funds
	£000	£000	£000
At 1 April 1994	50	13,485	13,535
Profit attributable to shareholders	-	721	721
At 31 March 1995 and 1 April 1995	50	14,206	14,256
(Loss) attributable to shareholders	-	(1,551)	(1,551)
At 31 March 1996	50	12,655	12,705

9. TANGIBLE FIXED ASSETS

	Land & Buildings Free-Hold	Land & Buildings Lease-Hold	Nav aids	Plant and other equipment vehicles furniture	Runways aprons and main services	Assets in course of construction and installation	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Cost							
At 1 April 1995	5,242	808	1,975	8,557	2,595	3,889	23,066
Additions during year	994	-	-	527	28	1,476	3,025
Disposals during year	-	-	-	(21)	-	-	(21)
Transfers during year	3,204	-	-	885	297	(4,386)	-
	9,440	808	1,975	9,948	2,920	979	26,070
Depreciation							
At 1 April 1995	(1,276)	(221)	(890)	(3,145)	(1,302)	-	(6,834)
Provided during Year	(366)	(43)	(248)	(894)	(150)	-	(1,701)
Disposals during year	-	-	-	15	-	-	15
	(1,642)	(264)	(1,138)	(4,024)	(1,452)	-	(8,520)
Net book value at 31 March 1996	7,798	544	837	5,924	1,468	979	17,550
Net book value at 31 March 1995	3,966	587	1,085	5,412	1,293	3,889	16,232

The net book value of freehold land and buildings includes £ 230,647 in respect of land (1995: £ 191,000).

	1996	1995
	£000	£000
10. INVESTMENTS		
Fixed asset investments		
Subsidiary undertaking		
Shares at cost	50	50

The subsidiary undertaking at 31 March 1996 was:-

	Country of Incorporation	Nature of Business	Proportion of shares held
Airport Management Services Limited	Scotland	Airport management	100%

The attributable capital and reserves of the above at 31 March 1996 was £52,636 (1995: £58,263).

	1996	1995
	£000	£000
11. DEBTORS		
Trade debtors	988	987
Prepayments and accrued income	360	73
Other debtors	361	168
	1,709	1,228

	1996	1995
	£000	£000
12. CREDITORS: Amounts falling due within one year		
Accruals and deferred income	1,310	1,872
Trade creditors	358	40
Other creditors	42	19
	1,710	1,931

13. PROVISION FOR LIABILITIES AND CHARGES

	Coastal Protection	Deferred Taxation	Severance Pay	Total
	£000	£000	£000	£000
As at 1 April	767	804	658	2,229
Provision increased	-	-	-	-
Provision decreased)	(23)	(475)	(658)	(1,156)
As at 31 March	744	329	-	1,073

	1996	1995
	£000	£000
Deferred taxation represents		
- capital allowances in advance of depreciation	1,393	1,274
- other timing difference	(245)	(470)
- trading losses	(819)	-
	329	804

14. DEFERRED GOVERNMENT GRANTS

	1996	1995
	£000	£000
Balance at 1 April	1,116	1,188
Grants receivable : Scottish Office	3,090	-
: Other	281	23
Released to profit and loss account	(191)	(95)
Balance at 31 March	4,296	1,116

15. SHARE CAPITAL

	Authorised		Issued and fully paid	
	1996	1995	1996	1995
	Number	Number	£000	£000
Ordinary shares of £1 each	50,000	50,000	50	50

		1996	1995
		£000	£000
16.	CAPITAL COMMITMENTS		
	Contracted	35	819

		1996	1995
		£000	£000
17.	RECONCILIATION OF OPERATING (LOSS)PROFIT TO NET CASH (OUTFLOW)INFLOW FROM ACTIVITIES		
	Operating (loss)profit	(2,100)	2,476
	Depreciation	1,701	1,364
	(Profit) on disposal of tangible fixed assets	(2)	(12)
	Deferred Government grants released	(191)	(95)
	Increase in debtors	(214)	(423)
	(Reduction) Increase in creditors	(115)	254
	(Reduction)Increase in provision	(681)	362
	Net cash (outflow)inflow	(1,602)	3,926

18. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

Balance as at 1 April	2,022	119
Net cash (outflow)inflow	(1,547)	1,903
Balance as at 31 March	475	2,022

The Company is subject to economic regulation under the Airports Act 1986 which requires the Company to hold permissions from the Civil Aviation Authority to levy airport charges.

Operational activities are required to be allocated between airport charges levied in connection with the landing, parking and taking-off of aircraft (including passenger related charges) and other operational income.

All revenue and costs from non-operational activities, such as items where the income is not primarily from airport users, is required to be shown in a separate category.

Costs have been apportioned on a basis obtained by the analysis of 1994/95 actual expenditure.

AIRPORT OPERATIONAL ACTIVITIES	£000	£000
Airport Charges		
Revenue	14,805	
Costs	17,386	(2,581)
Other income		
Revenue	1,205	
Costs	724	481
NON-OPERATIONAL ACTIVITIES		
The Company has no such activities under the Act		-
Company operating loss for the period		2,100

Unless specified elsewhere in these accounts, the Company received no preferential treatment or financial support from any associated person or organisation during the period of these accounts.

REPORT OF THE AUDITORS
to the members of Highlands & Islands Airports Limited

We have audited the accounts on pages 13 to 26 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 16 and 17.

Respective responsibilities of directors and auditors

As described on page 8, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 March 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Chartered Accountants
Registered Auditor
Inverness

18 June 1996