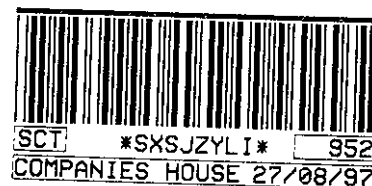


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HIGHLANDS AND ISLANDS AIRPORTS LIMITED

ANNUAL REPORT AND ACCOUNTS  
1996/1997



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## **DIRECTORS**

Peter J Grant CBE, Chairman  
Robert M Macleod, Managing Director(appointed 9.6.97)  
Hugh M Lawson, Managing Director (resigned 31.3.97)  
William K Semple  
Francis Hamilton

## **SECRETARY**

A John Burns

## **REGISTERED OFFICE**

Inverness Airport,  
Inverness IV1 2JB

## **AUDITORS**

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

Registered No. 97647

*The Directors submit their Report and Accounts for the period 1 April 1996 to 31 March 1997.*

## RESULTS AND DIVIDENDS

The trading loss for the period, after taking account of taxation, amounted to £893,000. The directors recommend that no dividend is paid, leaving the full amount to be set against reserves.

## REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

Funding received for the year ended 31 March 1997 totalled £7,500,000; made up of a revenue grant of £6,430,000 and a capital grant of £750,000 from the Secretary of State for Scotland together with a capital grant of £320,000 from the European Regional Development Fund.

Non oil-related passenger numbers rose by 4 per cent and aircraft movements by 6 per cent. Oil related passenger numbers fell by 24 per cent and aircraft movements by 19 per cent. Overall passenger numbers decreased during the year.

Passenger numbers grew at Inverness as a result of the introduction by Air UK and easyJet of scheduled flights from Stansted and Luton. Air UK began daily operations to Amsterdam in March 1997.

Work continued towards the completion of a contract under the government's Private Finance Initiative (PFI) to expand and improve Terminal Building facilities at Inverness. Preliminary architects fees of £373,000 on the PFI project, represent the Company's financial commitment for European Regional Development Fund purposes.

As anticipated in last year's report, the easing of restrictions on oil related traffic using Scatsta Airport from April 1996 has had a significant effect on revenue at Sumburgh Airport. It was not possible to match the downturn in revenue with a similar level of cost savings.

We have kept under review the intimation by Shell that they are conducting a study into a relocation of their Shetland operations from Sumburgh to Unst. We are co-operating with the Shetland Islands Council in the preparation of the Council's study into the impacts of such a proposed move. As with

the relocation of BP from Sumburgh to Scatsta in the year under review, the impact at Sumburgh would be of major consequence to the Company.

Passenger numbers rose slightly at Barra. A local referendum on the provision of a hard runway was inconclusive, and operations will continue from the beach airstrip.

At Benbecula closure of the Royal Artillery Range for a part of the year for upgrading resulted in a reduction in passenger numbers.

Following on the preparatory work reported last year, the company took over management of Campbeltown airport on 1 April 1996. The revenue funding requirement for the first year of operation was £800,000, but we expect this to fall in 1997/98.

Islay passenger numbers held steady, despite an overall decrease in aircraft movements.

While Kirkwall handled some oil related traffic, passenger numbers showed a small decrease.

Passenger numbers at Stornoway fell slightly but aircraft movements increased.

Domestic passenger numbers at Sumburgh showed a small increase, despite the withdrawal of Business Air schedules to Aberdeen in October 1996. Oil-related traffic decreased significantly as a result of the easing of restrictions on oil related traffic at Scatsta, causing a severe impact on Sumburgh's revenue. Oil related passenger numbers fell by 24 per cent and aircraft movements by 19 per cent.

At Tiree passenger numbers and aircraft movements fell slightly.

Changes to scheduled flight timings at Wick resulted in a substantial reduction in domestic passenger numbers and aircraft movements.

Major maintenance expenditure at Sumburgh involved refurbishing toilet areas (£82,000) and work on runway 09/27 (£372,000). Reprofiling work on runway 13/31 at Wick cost £266,000.

## FIXED ASSETS

Investments in new tangible fixed assets amounted to £1,085,000.

Expenditure of £496,000 was committed towards the provision of a new visual control room and fire service accommodation at Barra and orders were placed for three new fire appliances.

We completed much needed refurbishment of the domestic departure lounge at Sumburgh.

At Kirkwall and Sumburgh sensor equipment was installed at a cost of £42,000 and £45,000, following the company's assumption of responsibility for the meteorological service.

Lighting installations costing £92,000 were carried out at Stornoway and £31,000 was invested in runway lighting at Wick.

## GRANTS

We received grant assistance of £320,000 towards from the European Regional Development Fund towards the cost of the control tower building at Inverness.

## PERSONNEL

Staff numbers at the year end increased from 192 to 210. Eight staff were taken on at Campbeltown as managements responsibility for the airport was transferred to the company. We recruited a further three Air Traffic Controllers and four Air Traffic Services Assistants at Sumburgh in place of the contracted provision of services by National Air Traffic Services (NATS), whose operations were relocated to Aberdeen.

Over the course of the year we recruited 34 people while 16 left the company, including medical retirements and resignations. Promotional and transfer interviews conducted within the company resulted in a further 13 staff changes.

## TRAINING AND DEVELOPMENT

The importance of a well-trained workforce in contributing to the success of a company can hardly be overestimated. Most training is undertaken on the job, learning from colleagues and line managers. To ensure that all employees have the requisite knowledge and skills to perform adequately and to advance in their careers, we make use of internal courses, external courses and conferences and longer courses of study leading to recognised qualifications. Although costly such training and development is a necessary investment in our staff.

Much of the training undertaken is a regulatory requirement, such as the phased training of fire service personnel. Specific training for non-fire service personnel is arranged as appropriate. In addition to regular training plans, we recruit and train Air Traffic Control Trainees and we are planning a new initiative in management development training.

## DIRECTORS AND THEIR INTERESTS

The directors who served during the year to 31 March 1997 and subsequently are:

Peter J Grant CBE, Chairman

Robert M Macleod, Managing Director (appointed 9.6.97)

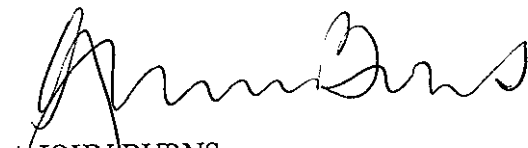
Hugh M Lawson, Managing Director (resigned 31.3.97)

Francis Hamilton, Director

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  
9 June 1997

## 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.

# PROFIT AND LOSS ACCOUNT

FOR THE YEAR 1 APRIL 1996 TO 31 MARCH 1997

		Continuing Operations	New Operation: Campbeltown	Total	Total
	Note	1997 £000	1997 £000	1997 £000	1996 £000
TURNOVER					
Traffic operations and other charges		10,512	86	10,598	11,300
Total grants received		6,653	847	7,500	7,800
less Capital grants carried to Deferred Income:					
Scottish Office		703	47	750	3,090
European Regional Development Fund		320	-	320	-
Scottish Office Revenue grant	(2)	5,630	800	6,430	4,710
		16,142	886	17,028	16,010
DIRECT OPERATING COSTS		15,464	797	16,261	16,480
GROSS PROFIT(LOSS)		678	89	767	(470)
ADMINISTRATIVE EXPENSES		1,675	97	1,772	1,630
OPERATING (LOSS)	(3) (4)	(997)	(8)	(1,005)	(2,100)
INTEREST RECEIVABLE				46	74
(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX				(959)	(2,026)
TAX ON (LOSS) ON ORDINARY ACTIVITIES	(8)			(66)	(475)
(LOSS) FOR THE FINANCIAL YEAR				(893)	(1,551)

## RECOGNISED GAINS AND LOSSES:

There are no other gains or losses other than the loss attributable to the shareholder of the company of £893,000 for the year ended 31 March 1997 and the loss of £1,551,000 for the year ended 31 March 1996.

The notes on pages 11 to 20 form part of these accounts



**BALANCE SHEET**  
**AS AT 31 MARCH 1997**

	Note	£000	1997 £000	1996 £000
<b>FIXED ASSETS</b>				
Tangible assets	(9)		16,398	17,550
Investments	(10)		50	50
			<u>16,448</u>	<u>17,600</u>
<b>CURRENT ASSETS</b>				
Debtors	(11)	2,046		1,709
Cash in hand		465		475
		<u>2,511</u>		<u>2,184</u>
CREDITORS: Amounts falling due within one year	(12)	1,188		1,710
NET CURRENT ASSETS			<u>1,323</u>	<u>474</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>17,771</u>	<u>18,074</u>
PROVISION FOR LIABILITIES AND CHARGES	(13)		932	1,073
<b>ACCRUALS AND DEFERRED INCOME</b>				
Deferred Government grants	(14)		5,027	4,296
			<u>11,812</u>	<u>12,705</u>
<b>CAPITAL AND RESERVES</b>				
Share capital	(15)		50	50
Profit and loss account	(16)		11,762	12,655
TOTAL SHAREHOLDER'S EQUITY			<u>11,812</u>	<u>12,705</u>

*Peter Grant*

Peter Grant, Chairman

*John Burns*

John Burns, Secretary  
9 June 1997

*The notes on pages 11 to 20 form part of these accounts*

# CASH FLOW STATEMENT

FOR THE YEAR 1 APRIL 1996 TO 31 MARCH 1997

	Note	£000	1997 £000	1996 £000
NET CASH OUTFLOW FROM ACTIVITIES	(4.2)		(56)	(1,602)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received			46	74
CAPITAL EXPENDITURE				
Purchase of tangible fixed assets		(1,085)		(3,130)
Receipt of capital grants: Scottish Office		750		3,103
ERDF		320		-
Sale of tangible fixed assets		15		8
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE			-	(19)
DECREASE IN CASH			(10)	(1,547)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS				
			£000	£000
Decrease in cash in the period			(10)	(1,547)
Net funds at 1 April			475	2,022
Net funds at 31 March			<u>465</u>	<u>475</u>

The notes on pages 11 to 20 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 the 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 lives 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 1997 have not been consolidated.

2. TURNOVER

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

A revenue grant of £6,430,000 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 1997

	Total		Grant received from SO		Barra		Benbecula		Campbeltown		Inverness	
	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Turnover</b>												
Airport charges	9,271	10,095	-	-	87	76	345	376	82	-	2,302	2,077
Other income	1,327	1,205	-	-	6	4	38	38	4	-	523	455
Grant received from SO	6,430	4,710	6,430	4,710	-	-	-	-	-	-	-	-
	17,028	16,010	6,430	4,710	93	80	383	414	86	0	2,825	2,532
<b>Operating costs</b>												
									Start Up Costs			
Staff costs	6,625	6,062	-	-	236	232	503	460	366	25	1,624	1,689
Property rates	889	775	-	-	2	3	37	38	95	-	176	195
Security, utilities, materials	2,710	2,452	-	-	35	42	124	210	177	60	725	578
Repairs and maintenance	3,189	5,077	-	-	106	60	253	229	90	206	602	957
Net depreciation	1,883	1,510	-	-	11	17	110	120	8	-	755	347
Other operating costs	2,737	2,234	-	-	46	102	131	100	158	29	728	367
	18,033	18,110	-	-	436	456	1,158	1,157	894	320	4,610	4,133
<b>Operating (loss) profit</b>	<b>(1,005)</b>	<b>(2,100)</b>	<b>6,430</b>	<b>4,710</b>	<b>(343)</b>	<b>(376)</b>	<b>(775)</b>	<b>(743)</b>	<b>(808)</b>	<b>(320)</b>	<b>(1,785)</b>	<b>(1,601)</b>

Net depreciation includes; depreciation charge for the year, profit on sale of fixed assets, release of deferred government grants and preliminary architects fees relating to Inverness terminal building PFI contract  
Sumburgh costs have been apportioned between non-oil and oil on the basis of the comparable Kirkwall and Stornoway costs of a non-oil airport operation.

Islay	1997 £000	1996 £000	Kirkwall		Stornoway		Sumburgh Non Oil-related Activities		Sumburgh Oil-related Activities		Tiree		Wick	
			1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000
111	111	111	622	658	700	654	1,060	1,094	3,451	4,568	64	52	447	429
13	16	81	75	75	52	40	67	58	492	461	17	17	34	41
124	127	703	733	733	752	694	1,127	1,152	3,943	5,029	81	69	481	470
317	285	883	759	759	579	540	732	483	442	734	197	182	746	673
16	16	76	69	69	71	99	74	84	291	219	11	10	40	42
66	94	203	202	202	137	132	170	159	861	794	52	57	160	124
99	123	286	2,108	2,108	196	217	242	211	681	563	150	198	484	205
96	87	137	143	143	145	145	142	141	237	286	75	59	167	165
64	51	117	223	223	72	79	94	122	1,236	990	25	51	66	120
658	656	1,702	3,504	3,504	1,200	1,212	1,454	1,200	3,748	3,586	510	557	1,663	1,329
(534)	(529)	(999)	(2,771)	(448)	(448)	(518)	(327)	(48)	195	1,443	(429)	(488)	(1,182)	(859)

	1997	1996
	£000	£000
4. OPERATING LOSS		
4.1 This is stated after charging:		
Depreciation	1,861	1,703
Auditors' remuneration	8	8
Non-audit fees payable to auditors	320	52
Preliminary architects fees on PFI project	373	-
and after crediting:		
Government grants released	339	191
Profit on disposal of fixed assets	12	2
4.2 Reconciliation of operating loss to net cash outflow from activities		
	1997	1996
	£000	£000
Operating (loss)	(1,005)	(2,100)
Depreciation	1,861	1,701
Preliminary architects fees on PFI project	373	-
(Profit) on disposal of tangible fixed assets	(12)	(2)
Deferred Government grants released	(339)	(191)
(Increase) in debtors	(337)	(214)
(Reduction) in creditors	(597)	(115)
(Reduction) in provisions	-	(681)
Net cash (outflow)	<u>(56)</u>	<u>(1,602)</u>
5. STAFF COSTS		
Wages and salaries	5,029	4,561
Social security costs	395	350
Pension costs (note 7)	743	765
Other staff costs	458	386
	<u>6,625</u>	<u>6,062</u>
The average number of employees during the period was 206 (1996: 195).		
	1997	1996
	£000	£000
6. DIRECTORS' EMOLUMENTS		
Emoluments (including pension contributions)	98	96

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

	1997	1996
	No.	No.
£ nil - £5,000	-	1
£5,001 - £10,000	2	1
£15,001 - £20,000	1	1
£60,001 - £65,000	1	1

The emoluments of the Chairman were £17,098 (1996: £16,600) including pension contributions of £Nil (1996 - £Nil) and of the highest paid director were £69,569 (1996: £70,714) including pension contributions of £9,139 (1996: £8,300).

	1997	1996
	£000	£000
7. PENSION COSTS		
Ordinary contributions to the pension scheme	743	598
Other contributions: pension enhancements	-	167
	<u>743</u>	<u>765</u>

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, a defined benefit 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 results of the actuarial assessment of the scheme as at 31 December 1996 are not yet available. The assumptions which have 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 31 December 1993 the market value of the assets notionally apportioned to the Company was £20,762,000.

The actuarial value of the assets was 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 15.9% (1996: 15.5%) of pensionable salaries.

	1997	1996
	£000	£000
8. TAX ON LOSS ON ORDINARY ACTIVITIES		
Based on result for the year		
Corporation tax at 33%	75	-
Deferred taxation (note 13)	(141)	(475)
	<u>(66)</u>	<u>(475)</u>



## 9. TANGIBLE FIXED ASSETS

	Land & Buildings		Nav aids	Plant and other equipment vehicles furniture	Runways aprons and main services	Assets in course of construction and installation	Total
	Free- Hold £ 000	Lease- Hold £ 000	£ 000	£ 000	£ 000	£ 000	£ 000
<b>Cost</b>							
At 1 April 1996	9,440	808	1,975	9,948	2,920	979	26,070
Additions during year	-	-	-	376	8	701	1,085
Disposals during year	-	-	-	(46)	-	(373)	(419)
Transfers during year	152	-	-	689	-	(841)	-
	<u>9,592</u>	<u>808</u>	<u>1,975</u>	<u>10,967</u>	<u>2,928</u>	<u>466</u>	<u>26,736</u>
<b>Depreciation</b>							
At 1 April 1996	(1,642)	(264)	(1,138)	(4,024)	(1,452)	-	(8,520)
Provided during year	(461)	(43)	(245)	(959)	(153)	-	(1,861)
Disposals during year	-	-	-	43	-	-	43
	<u>(2,103)</u>	<u>(307)</u>	<u>(1,383)</u>	<u>(4,940)</u>	<u>(1,605)</u>	<u>-</u>	<u>(10,338)</u>
<b>Net book value</b>							
at 31 March 1997	<u>7,489</u>	<u>501</u>	<u>592</u>	<u>6,027</u>	<u>1,323</u>	<u>466</u>	<u>16,398</u>
<b>Net book value</b>							
at 31 March 1996	<u>7,798</u>	<u>544</u>	<u>837</u>	<u>5,924</u>	<u>1,468</u>	<u>979</u>	<u>17,550</u>

The net book value of freehold land and buildings includes £ 230,647 in respect of land (1996: £ 230,647).

	1997	1996
	£000	£000
10. INVESTMENTS		
Shares at cost	50	50

The subsidiary undertaking at 31 March 1997 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 1997 was £54,350 (1996: £52,636).

	1997	1996
	£000	£000
11. DEBTORS		
Trade debtors	920	988
Prepayments and accrued income	609	360
Other debtors	517	361
	<u>2,046</u>	<u>1,709</u>

	1997	1996
	£000	£000
12. CREDITORS: Amounts falling due within one year		
Trade creditors	450	358
Other taxes and social security costs	128	-
Other creditors	28	42
Accruals and deferred income	507	1,310
Corporation tax	75	-
	<u>1,188</u>	<u>1,710</u>

13. PROVISION FOR LIABILITIES AND CHARGES

	Coastal Protection	Deferred Taxation	Total
	£000	£000	£000
As at 1 April 1996	744	329	1,073
Provision released	-	(141)	(141)
As at 31 March 1997	<u>744</u>	<u>188</u>	<u>932</u>
		1997	1996
		£000	£000
Deferred taxation represents			
- capital allowances in advance			
of depreciation		1,304	1,393
- other timing differences		(245)	(245)
- trading losses		(871)	(819)
		<u>188</u>	<u>329</u>
		1997	1996
		£000	£000

14. DEFERRED GOVERNMENT GRANTS

Balance at 1 April		4,296	1,116
Grants receivable	: Scottish Office	750	3,090
	: Other	320	281
Released to profit and loss account		(339)	(191)
Balance at 31 March		<u>5,027</u>	<u>4,296</u>

15. SHARE CAPITAL

	Authorised		Issued and fully paid	
	1997	1996	1997	1996
	Number	Number	£000	£000
Ordinary shares of £1 each	50,000	50,000	50	50

16. SHARE CAPITAL, MOVEMENT ON RESERVES AND RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	Share Capital £000	Profit and Loss account £000	Total Share- holder's Funds £000
At 1 April 1995	50	14,206	14,256
(Loss) attributable to the shareholder	-	(1,551)	(1,551)
At 31 March 1996 and 1 April 1996	50	12,655	12,705
(Loss) attributable to the shareholder	-	(893)	(893)
At 31 March 1997	<u>50</u>	<u>11,762</u>	<u>11,812</u>

1997	1996
£000	£000

17. CAPITAL COMMITMENTS

Contracted	166	35
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18. CONTINGENT LIABILITIES

As part of the PFI negotiations the company has extended guarantees up to a maximum of £347,500 against the cost of professional fees incurred by the preferred bidder prior to a contract being concluded.

19. RELATED PARTIES

- (a) During the year the company purchased motor vehicles and parts totalling £185,467 from Macrae & Dick Limited. At the balance sheet date the amount due to Macrae & Dick Limited was £1,201.

Francis Hamilton a director of the company was also the chairman and managing director of Macrae & Dick Limited during the year.

- (b) During the year the company sold a motor vehicle for £7,160 to the Managing Director, Hugh Lawson.

All transactions were entered into on an arm's length basis.

## ECONOMIC REGULATION STATEMENT

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.

	£000	£000
<b>AIRPORT OPERATIONAL ACTIVITIES</b>		
<b>Airport Income</b>		
Airport charges	9,271	
Grant received from Scottish Office	<u>6,430</u>	
	15,701	
Costs	<u>17,312</u>	<u>(1,611)</u>
<b>Other income</b>		
Revenue	1,327	
Costs	<u>721</u>	<u>606</u>
<b>NON-OPERATIONAL ACTIVITIES</b>		
The Company has no such activities under the Act	-	
<b>Company operating loss for the period</b>		<u><u>(1,005)</u></u>

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 shareholder of Highlands and Islands Airports Limited**

We have audited the accounts on pages 8 to 20 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 11 and 12.

**Respective responsibilities of directors and auditors**

As described on page 7, 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.

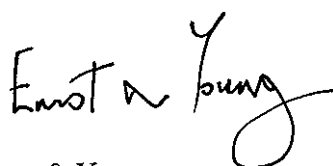
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. 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 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Other Opinion**

In our opinion the Economic Regulation Statement presents fairly the information set forth therein and is in accordance with the requirements of the Accounts conditions issued by the Civil Aviation Authority under Section 41(1) of the Airports Act 1986.



Ernst & Young  
Chartered Accountants  
Registered Auditor  
Inverness

9 June 1997