97104

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

ANNUAL REPORT AND GROUP ACCOUNTS

2006/2007

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DIRECTORS

David F Sutherland CBE CA, Chairman

Inglis E Lyon, Managing Director

Grenville S Johnston OBE TD JP CA

Shona C MacLennan

Charles Alexander Goodlad

Linn Phipps

COMPANY SECRETARY

Jane Thornton CA

REGISTERED OFFICE

Inverness Airport
Inverness
IV2 7JB

Registered in Scotland Number 97647

AUDITORS

Ernst and Young LLP
Barony House
Stoneyfield Business Park
Stoneyfield
Inverness
IV2 7PA

DIRECTORS' REPORT

The Directors submit their Report and the Group Accounts for the year ended 31 March 2007

RESULTS AND DIVIDENDS

The trading profit for the period, after taking account of taxation, amounted to £1,257,000 This profit resulted after a profit on disposal of a section of land at Wick Airport The directors recommend that no dividend be paid, leaving the full amount to be set against reserves

PRINCIPAL ACTIVITY

The group's principal activity is to operate airports safely and efficiently through best business practice so that they contribute to the economic and social wellbeing of the Highlands and Islands

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

Subsidies from the Scottish Ministers received for the year ended 31 March 2007 totalled £22,198,000 made up of revenue of £14,197,000 and capital of £8,001,000

To improve efficiency of operations, the Directors restructured the group so that the trade, assets and liabilities (excluding inter company loans) of Inverness Air Terminal Limited were hived up into Highlands and Islands Airports Limited This transfer agreement was signed during the financial year but was effective at 1 April 2006

Passenger numbers, freight tonnage and aircraft movements increased by 7%, 1% and 9% respectively in the year

CAPITAL EXPENDITURE

Investment in new fixed assets amounted to £9,497,000 Expenditure was incurred on major items as follows

a) At Benbecula, improvements to the terminal building required to meet increased security and operational requirements were completed at a cost of £456,000

b) At Inverness, a project to extend the South Apron to provide additional aircraft parking to accommodate continued growth was completed at a cost of £352,000 A long stay car park was built to improve facilities for passengers at a cost of £691,000 The North Apron was strengthened to provide additional parking for larger aircraft at a cost of £1,433,000 A project to provide a dedicated airport RADAR service commenced at a cost of £696,000 As part of a company wide project to improve safety, areas of the airfield were ramped at a cost of £345,000 A replacement fire training simulator was purchased, to facilitate the ongoing requirement for hot fire training, at a cost of £365,000

c) At Sumburgh, the 09/27 runway extension project was completed at a cost of £2,862,000 in the year giving a total cost to date of £9,740,000 A new car park was built, to increase capacity, at a cost of £333,000 Areas of the 09/27 runway were also resurfaced during the year at a cost of £927,000

The 09/27 runway extension project has been developed by the Sumburgh Airport Strategic Partnership, which comprises Shetland Islands Council, Shetland Enterprise, Sumburgh Airport Consultative Committee and Highlands and Islands Airports Limited The project attracted the following levels of funding during the year, £1,250,000 from the Scottish Executive, £852,000 from Shetland Islands Council and £702,000 from the European Regional Development Fund via the Highlands and Islands Special Transitional Programme 2000 2006

d) At Wick, a water main was replaced and improved at a cost of £169,000

AIRPORT CONSULTATIVE COMMITTEES

Airport Consultative Committees are maintained at each airport These provide a forum for the discussion of all matters concerning the development or operation of the airport, which have an impact on the users of the airport and on people living and working in the surrounding area Consultative Committees are a means of keeping all interested parties informed of matters affecting them, of providing an opportunity to reconcile differences of view and resolve difficulties

SAFETY

The group is committed to ensuring, as far as is reasonably practicable, a high standard of health, safety and welfare for members of the public, all employees and others affected by its undertakings

CREDITOR PAYMENT POLICY AND PRACTICE

It is company policy that payments to suppliers are made in accordance with terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with

At 31 March 2007 the company had an average of 13 days' purchases outstanding in trade creditors

HUMAN RESOURCES

At the year end the company employed 307 staff, an increase of three on the previous year total

Over the course of the year we recruited to fill 25 permanent posts plus a number of fixed term and part time positions Staff turnover through retirement, resignation and death in service saw 22 people leave the company while promotions, re grading and transfers resulted in 24 internal staff changes

To ensure that company appropriately addresses the changing operational and regulatory environment within which it operates some internal restructuring was carried out and a number of new posts were created, including Director of Safety and

Operations, Assistant Operations Manager and Inverness Assistant Airport Manager Recruitment and training of radar qualified air traffic controllers was also undertaken at Inverness

TRAINING AND DEVELOPMENT

We recognise that our staff play a vital role in successful business delivery HIAL is committed to maintaining appropriate staffing levels and skills across the company to meet the needs of the business

Training and development strategies were reviewed to ensure that these are appropriate for developing and maintaining relevant skills and competencies across the company In particular, a comprehensive programme of recruitment and training is in place to address future air traffic control resourcing in light of an industry wide shortage of qualified personnel HIAL also received regulatory approval for its in house maintenance of competency programme for airport fire service personnel with elements of their training now being delivered within the company rather than through external providers

Communication to staff flows through the management structure of the company on a regular basis Steps were taken to improve internal communications with the introduction of a company weekly staff briefing note while an initial external assessment was taken with a view to working towards Investors in People reaccreditation for the company

EMPLOYMENT POLICIES

The company recognises three Trades Unions (PCS, Prospect and T&G) and encourages all staff to be a member of the appropriate union Joint management/Trades Unions meetings are held at least quarterly

As a company HIAL promotes a positive and supportive working environment with equality of opportunity, supported by appropriate employment policies This includes equality of opportunity for people with disabilities within the workplace from the initial recruitment stage through to development and career progression HIAL offers flexible working and family friendly policies and supports these requests whenever this is operationally possible HIAL also has employment policies, which meet statutory requirements and in the case of maternity, paternity and adoptive leave go beyond the statutory minimum

Changes in legislation saw the company's retirement age increased to 65 and alterations were made to the travel and subsistence policy to bring it into line with best business practice Consultation commenced on proposed amendments to the company's pension scheme in order to address a series of administrative anomalies and to introduce greater flexibility with regard to early ill health retirements

POLITICAL AND CHARITABLE CONTRIBUTIONS

No political contributions were made during the year The company made charitable contributions of £250 each to the Crossroads (Inverness) Care Attendant Scheme and Highland Vision Services during the year

GOING CONCERN

The company sets an annual budget which aims to balance income, expenditure and subsidy provisions set by government Future operational and legislative requirements are addressed in a ten year corporate plan which includes provision for revenue and capital items such as major repairs to runways or new or replacement equipment The subsidy provisions for the year to 31 March 2007 were originally set at £22 7 million and were increased during the year to £25 1 million £20 226 million was drawn down during the year The company has applied to carry forward £4 424 million to meet future expenditure, predominantly on the Inverness RADAR project The balance of £0 45 million was not drawn down from the Scottish Executive The subsidy provisions have been set at £23 2 million for the year ending March 2008 This is considered by the directors to be adequate to sustain the company as a going concern

AUDITORS

Ernst & Young LLP were reappointed as auditors at the Annual General Meeting on 4 August 2006 A resolution to reappoint Ernst & Young LLP will be laid before the Annual General Meeting on 27 July 2007

DIRECTORS AND THEIR INTERESTS

The directors who served during the year to 31 March 2007 and subsequently are

Alex Matheson, Chairman	(retired 28 February 2007)
David F Sutherland, Chairman	(appointed 1 April 2007)
Inglis E Lyon, Managing Director	
Charles Alexander Goodlad, Director	
Grenville S Johnston, Director	
Shona C MacLennan, Director	
Linn Phipps, Director	

None of the directors had an interest in the share capital of the Company The Register of Directors' interests may be examined by prior arrangement with the Company Secretary during normal office hours at the Registered Office of the company

DIRECTORS' INDEMNITY INSURANCE

During the year the company purchased and maintained liability insurance for its directors as permitted by section 309C of The Companies Act 1985

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were members of the board at the time of approving the directors' report are listed on page 1 Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and

- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

By order of the board

Jane Thornton CA
Company Secretary
7 June 2007

STATEMENT ON INTERNAL CONTROL

SCOPE OF RESPONSIBILITY

As Accountable Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of the company's policies, aims and objectives agreed between the Board and the Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Executive and other relevant bodies on the proper handling of public funds It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety and secure effective accountability and good systems of internal control As the company is a body sponsored by the Scottish Executive, guidance in the SPFM is applicable insofar as it is relevant and consistent with any statutory requirements

PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the company's policies, aims and objectives It can therefore only provide reasonable and not absolute assurance of effectiveness

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the company's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically

The process within the organisation accords with the SPFM and has been in place for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts and accords with guidance from the Scottish Ministers

RISK AND CONTROL FRAMEWORK

All bodies subject to the requirements of the SPFM must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers The general principles for a successful risk management strategy are set out in the SPFM

Risk Management

The managing director, senior managers and appropriate line managers are responsible for the effective management of risk within the Company and ensure that appropriate procedures, resources and skills are introduced and maintained to achieve this

Policy aims and objectives adopted by the Board in relation to risk are

- Minimisation of the risks of injury, damage, loss of facilities and inconvenience to the travelling public, other service users, staff and service providers arising from the provision of company facilities and services,
- Business continuity,
- Raising awareness of the need for Risk Management throughout the company,
- Enabling the Board of Directors and management of the company to anticipate and respond to changing social, environmental and legislative conditions,

- Application of a documented robust framework and procedures for identification, analysis, assessment and management of risk,
- Minimisation of the cost of risk,
- Ongoing maintenance and review of the Risk Register for the company

Formal reporting lines on risk follow existing management structures Strategic risk is managed and reviewed at Board level

Safety Management Systems

The company is also in the process of working with Safety Regulation Group within the Civil Aviation Authority to develop a Safety Management System covering our Air Navigation Service Provision to meet the EU Common Requirements Regulation This is due to be completed by December 2007 This involves the development of a hazard assessment matrix for all operational areas to enable further proactive management of risk and enhancement of control measures

I am committed to implementing, developing and improving appropriate strategies, management systems and processes to ensure that all our aviation activities uphold the highest level of safety performance and meet National, European and International standards

Safety is the first priority in all our aviation activities The safety initiatives for the coming year are

- Establish and measure our aviation safety performance against objectives and/or targets,
- Develop and implement a Safety Critical Events Scheme to assist in risk monitoring and mitigation and as safety related key performance indicators,
- Continue to develop the hazard logs and safety risk registers for all the airports and for Head Office,
- Develop a company wide operational competency standards scheme and robust incident investigation processes,
- Develop an operational requirements awareness programme for all our staff,
- Introduce a peer group audit programme to assure the efficacy of our operational procedures and safety management system,
- As far as reasonably practicable achieve the highest levels of safety standards and performance in all our aviation activities,
- As far as reasonably practicable continually improve our safety performance,
- Form an Aviation Safety Review Group to review safety progress utilising external industry expertise

We all have a responsibility for working in a safe manner The application of effective aviation safety management systems is integral to all our aviation activities with the objective of achieving the highest levels of safety standards and performance

Control Environment

Capable, competent personnel are viewed as an essential part of the control environment High standards of behaviour are supported by high recruitment standards and ongoing staff training and development

The systems of internal financial control include

- An annual budget approved by the Board,
- Regular consideration by the Board of actual and budget results,
- Delegated financial authorities,
- Clearly defined procurement and evaluation procedures

More generally, the organisation is committed to a process of continuous development and improvement, developing systems in response to any relevant reviews and developments in best practice in this area In particular, in the period covering the year to 31 March 2007 and up to the signing of the accounts a Board member has been specifically designated with responsibility for safety on behalf of the Board

REVIEW OF EFFECTIVENESS

As Accountable Officer I have responsibility for reviewing the effectiveness of the system of internal control My review is informed by

- The senior managers within the company who have responsibility for the development and maintenance of the internal control framework,
- The work of the internal auditors, who submit to the company's Audit Committee regular reports which include their objective opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement,
- Comments made by the external auditors in their management letters and other reports

The following processes are established

The Board

The Board is responsible for determining the business strategy of the company, taking into account the Scottish Ministers' expressed policy to encourage economic and social development in the Highlands and Islands

The Board is composed of six members appointed by the Scottish Ministers The six members are the non executive chairman, the executive managing director and four non executive directors The Board meets on a six weekly cycle and has adopted a policy of requiring all significant matters to be referred to the Board for decision unless these are specifically within delegated limits given to the managing director

Monitoring systems used by the Board

The Board at its regular meetings deals with issues of risk and internal control on an ongoing basis In particular, it reviews safety, financial performance including variances from budget, commercial and marketing information and objectives, acquisitions and disposals as necessary, environmental and regulatory issues, business planning and strategies

The management team led by the Managing Director monitors financial performance by a system of monthly financial reporting and review together with forward projections

Board Committees

During the year the Audit Committee was composed of three non executive directors Mr G S Johnston, Dr C A Goodlad and Ms S MacLennan The Committee, chaired by Mr G S Johnston, works to terms of reference agreed by the Board and meets on a regular basis The managing director and the company secretary are normally invited to attend meetings The Committee receives regular reports from both the internal and external auditors and makes periodic reports concerning internal control to the Board The Committee reviews and comments to the Board as to corporate governance compliance and the adequacy of risk management arrangements

Internal Audit

The internal audit concentrates on areas determined by analysis of the degree of risk and in accordance with the internal audit plan considered by the Audit Committee and approved by the Board The Audit Committee enhances the independence and value of internal audit and provides a forum for senior management to discuss internal control including issues raised by internal audit

Operational Control

Each of the airports under the company's control is subject to regular operational inspections by the Civil Aviation Authority as regulator

The Assessor

An Assessor appointed by the Scottish Ministers is entitled to attend but not vote at any meeting of the company or its directors

Appropriate action is in place to address any weaknesses identified and to ensure the continuous improvement of the system

I E Lyon
Managing Director
7 June 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the applicable law regulations

Company law requires the directors to prepare accounts for each financial year Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to 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

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2007

	Note	**2007** **£000**	2006 £000
TURNOVER			
Continuing operations			
Ongoing		**13,635**	11,766
Acquisitions – Inverness Air Terminal Limited		—	147
GROUP TURNOVER	(2)	**13,635**	11,913
SUBSIDIES			
Total receivable	(3)	**23,929**	60,704
Capital carried to deferred income	(3)	**(9,664)**	(45,941)
Revenue	(3)	**14,265**	14,763
		27,900	26,676
DIRECT OPERATING COSTS		**(26,273)**	(24,834)
GROSS PROFIT		**1,627**	1,842
ADMINISTRATIVE EXPENSES		**(3,511)**	(3,821)
OPERATING (LOSS)			
Continuing operations			
Ongoing		**(1,884)**	(2,203)
Acquisitions – Inverness Air Terminal Limited			224
GROUP OPERATING (LOSS)	(4)(5)	**(1,884)**	(1,979)
Share of operating (loss) in joint venture		**(59)**	(37)
TOTAL OPERATING (LOSS) GROUP AND SHARE OF JOINT VENTURE		**(1,943)**	(2,016)
PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS		**1,431**	1,155
		(512)	(861)
INTEREST RECEIVABLE AND SIMILAR INCOME	(8)	**945**	437
INTEREST PAYABLE AND SIMILAR CHARGES	(9)	—	(266)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX		**433**	(690)
TAX ON ORDINARY ACTIVITIES	(10)	**824**	(279)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		**1,257**	(969)

Notes 1 to 22 form part of these accounts

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 MARCH 2007

	2007	2006
	£000	£000
Profit/(loss) for the financial year excluding share of losses of joint venture	**1,315**	(933)
Share of joint venture's (loss) for the year	**(58)**	(36)
Profit/(loss) for the financial year attributable to members of the parent company	**1,257**	(969)
Actuarial gain on pension scheme	**1,000**	1,300
Total gain recognised since last annual report	**2,257**	331

Notes 1 to 22 form part of these accounts

GROUP BALANCE SHEET
AS AT 31 MARCH 2007

	Note		2007		2006
		£000	**£000**	£000	£000
FIXED ASSETS					
Intangible assets	(11)		**2,923**		3,188
Tangible assets	(12)		**59,588**		55,303
Investments	(13)				
Investment in joint venture					
Share of gross assets		**1,486**		1,472	
Share of gross liabilities		**(1,249)**		(1,190)	
Element redeemable to company		**1,862**		1,823	
			2,099		2,105
Other investments	(13)		**265**		103
			64,875		60,699
CURRENT ASSETS					
Debtors	(14)	**2,649**		3,171	
Cash in hand		**5,375**		3,192	
		8,024		6,363	
CREDITORS Amounts falling due within one year	(15)	**(2,689)**		(3,164)	
NET CURRENT ASSETS			**5,335**		3,199
TOTAL ASSETS LESS CURRENT LIABILITIES			**70,210**		63,898
PROVISION FOR LIABILITIES AND CHARGES	(16)				(579)
ACCRUALS AND DEFERRED INCOME					
Deferred subsidies	(17)		**(62,762)**		(58,128)
NET ASSETS EXCLUDING RETIREMENT BENEFITS			**7,448**		5,191
Retirement benefits asset	(20)		**400**		400
NET ASSETS INCLUDING RETIREMENT BENEFITS			**7,848**		5,591
CAPITAL AND RESERVES					
Share capital	(18)		**50**		50
Profit and loss account	(19)		**7,798**		5,541
TOTAL SHAREHOLDER'S EQUITY	(19)		**7,848**		5,591

David Sutherland, **Chairman**

Inglis Lyon, **Managing Director**
7 June 2007

Notes 1 to 22 form part of these accounts

COMPANY BALANCE SHEET
AS AT 31 MARCH 2007

	Note	2007 £000	2006 £000
FIXED ASSETS			
Tangible assets	(12)	**59,588**	44,230
Investments	(13)	**3,174**	30,921
		62,762	75,151
CURRENT ASSETS			
Debtors	(14)	**2,649**	9,273
Cash in hand		**5,375**	1,552
		8,024	10,825
CREDITORS Amounts falling due within one year	(15)	**(3,036)**	(2,896)
NET CURRENT ASSETS		**4,988**	7,929
TOTAL ASSETS LESS CURRENT LIABILITIES		**67,750**	83,080
PROVISION FOR LIABILITIES AND CHARGES	(16)		(21,738)
ACCRUALS AND DEFERRED INCOME			
Deferred subsidies	(17)	**(60,115)**	(56,022)
NET ASSETS EXCLUDING RETIREMENT BENEFITS		**7,635**	5,320
Retirement benefits asset	(20)	**400**	400
NET ASSETS INCLUDING RETIREMENT BENEFITS		**8,035**	5,720
CAPITAL AND RESERVES			
Share capital	(18)	**50**	50
Profit and loss account	(19)	**7,985**	5,670
TOTAL SHAREHOLDER'S EQUITY	(19)	**8,035**	5,720

David Sutherland, **Chairman**

Inglis Lyon, **Managing Director**
7 June 2007

Notes 1 to 22 form part of these accounts

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2007

		Note		2007		2006
			£000	**£000**	£000	£000
NET CASH INFLOW FROM OPERATING ACTIVITIES		(5 2)		**144**		350
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE						
Interest received				**234**		136
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT						
Purchase of tangible fixed assets			**(8,995)**		(9,779)	
Purchase of investments			**(239)**		(2,588)	
Receipt of capital subsidy	Scottish Ministers		**8,001**		44,156	
	European Regional Development Fund		**702**		1,548	
	Other		**902**		237	
Sale of tangible fixed assets			**1,439**		1,214	
				1,810		34,788
TAXATION						
Corporation tax paid				**(5)**		
ACQUISITIONS AND DISPOSALS						
Purchase of subsidiary undertaking					(28,333)	
Net cash acquired with subsidiary undertaking			—		1,309	
						(27,024)
FINANCING						
Repayment of long term loans				—		(6,565)
INCREASE IN CASH				**2,183**		1,685

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	£000	£000
Increase in cash in the period	**2,183**	1,685
Net funds at 1 April	**3,192**	1,507
Net funds at 31 March	**5,375**	3,192

Notes 1 to 22 form part of these accounts

NOTES TO THE FINANCIAL STATEMENTS

BASIS OF PREPARATION

1 ACCOUNTING POLICIES

1 1 Basis of preparation

The accounts are prepared in accordance with the historical cost convention and in accordance with applicable accounting and financial reporting standards The company receives subsidies from the Scottish Ministers on an annual basis The annual accounts are prepared on the assumption that the company will continue to receive such subsidies for the foreseeable future

1 2 Basis of Consolidation

The group accounts consolidate the results of Highlands and Islands Airports Limited and its subsidiary undertakings drawn up to 31 March each year No individual profit and loss account is presented for Highlands and Islands Airports Limited as permitted in section 230 of the Companies Act 1985 The Company profit for the year was £1,315,000 (2006 loss £840,000)

Entities in which the group holds an interest on a long term basis and are jointly controlled by the group and one or more other venturers under a contractual arrangement are treated as joint ventures In the group accounts, joint ventures are accounted for using the gross equity method

1 3 Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 10 years It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

1 4 Intangible Assets

Intangible assets acquired separately from a business are capitalised at cost Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill on the acquisition Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 10 years The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

1 5 Tangible Assets

Tangible fixed assets are stated at cost Interest and other directly attributable finance costs in respect of loans for the purposes of constructing assets, are capitalised as part of the cost of constructing the buildings up to the date of practical completion Subsequent interest is charged to the profit and loss account

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 25 years
Leasehold land and buildings	over the remaining life of the lease to a maximum of 20 years
Navigation aids	7 years
Plant and other equipment	3 10 years
Vehicles	5 years

Runways, aprons and main services	7 25 years
Runway bases	100 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 that are disposed of and not replaced are eliminated from tangible fixed assets

Net Depreciation (as disclosed in Note 4) includes depreciation charge for the year and release of deferred subsidies

1 6 Investments

Investments are shown at cost less provision for impairment

1 7 Subsidies

Subsidies represent amounts received from the Scottish Ministers in accordance with Section 34 of the Civil Aviation Act 1982 along with other revenue and capital grants

Subsidies 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

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

1 8 Deferred Taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements Deferred tax assets and liabilities are not discounted

1 9 Leases

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

1 10 Pension Costs

The company operates the Highlands and Islands Airports Pension Scheme, a defined benefit scheme Contributions are charged to the profit and loss account in accordance with actuarial recommendations, so as to spread the cost over the employees' remaining working lives with the company

On the advice of an independent qualified actuary, contributions are made to the plan to ensure that the plan's 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 at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability Any increase in the present value of the liabilities of the defined benefit pension plan expected to arise from employee service in the period is charged against operating profit The expected return on the plan's assets and the increase during the period in the present value of the plan's liabilities arising from the passage of time are included in interest receivable and similar income Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses

NOTES TO THE FINANCIAL STATEMENTS

1 11 Capital instruments

In accordance with FRS4 "capital instruments", the costs associated with the issue of capital instruments, other than shares, are charged to the profit and loss account over the life of the instrument, at a constant rate based on the carrying amount

2 TURNOVER

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

3 SUBSIDIES

Revenue subsidies from Scottish Ministers and others represent revenue of £13,475,000 received from the Scottish Ministers in accordance with Section 34 of the Civil Aviation Act 1982 and £153,000 from the Scottish Ministers to provide administrative services for the Air Discount Scheme A total of £68,000 was received from Highlands & Islands Enterprise Inverness and East Highland (HIEIEH) towards various studies A further £569,000 was utilised from the Route Development Fund, which provides support for new routes from the Highlands and Islands, up to 31 March 2007

		2007 £000	2006 £000
REVENUE			
Scottish Executive	Operating subsidy	**13,475**	14,375
Scottish Executive	Route Development Fund	**569**	277
Scottish Executive	Barra Hard Runway Study		51
Scottish Executive	Enhancement of Wick Air Services		44
HIEIEH	Inverness Master plan grant	**18**	6
HIEIEH	Network assistance grant	**1**	5
HIEIEH	Inbound charter study grant		5
Scottish Executive	Air Discount Scheme	**153**	
HIEIEH	Marketing Assistance grants	**32**	
HIEIEH	Website Development grant	**17**	
		14,265	14,763
CAPITAL			
Scottish Executive	Operating subsidy	**6,751**	6,698
Scottish Executive	Inverness Airport PFI buy out		34,957
Scottish Executive	Sumburgh Runway extension	**1,250**	2,500
ERDF	Sumburgh Runway extension	**761**	1,730
Shetland Islands Council	Sumburgh Runway extension	**852**	48
Miscellaneous	Terminal Building Gateway projects		8
HITRANS	Inverness RADAR	**50**	
		9,664	45,941
		23,929	60,704

4 OPERATING RESULTS – YEAR TO 31 MARCH 2007

	Total Activities		Consolidation Inter group trading		Subsidy received from Scottish Ministers		Barra		Benbecula		Campbeltown		Inverness	
	2007 £000	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000
Turnover														
Traffic operations	**11,236**	10 552	-	-	-	-	**169**	152	**486**	473	**208**	191	**5,032**	4 802
Other income	**2,399**	1 361	-	(397)	-	-	**7**	10	**65**	53	**13**	71	**1,559**	968
Subsidies receivable	**14,265**	14,763	-	-	**13,655**	14,487	-	-	-	1	-	-	**383**	167
	27,900	26 676	-	(397)	**13,655**	14 487	**176**	162	**551**	527	**221**	262	**6,974**	5 937
Operating costs														
Staff costs	**15,717**	14 737	-	-	-	-	**434**	391	**1,506**	1,363	**570**	581	**3 754**	3 123
Property rates	**917**	860	-	-	-	-	**9**	8	**43**	44	**17**	16	**320**	313
Security utilities materials	**6 127**	6 989	-	(397)	-	-	**91**	95	**324**	244	**142**	147	**2,440**	3 890
Repairs and maintenance	**3,198**	2 252	-	-	-	-	**65**	60	**278**	163	**173**	148	**679**	427
Net depreciation	**465**	505	-	56	-	-	**13**	13	**16**	25	**3**	(1)	**296**	241
Other operating costs	**3,360**	3,312	-	-	-	-	**56**	128	**133**	255	**61**	67	**982**	701
	29,784	28 655	-	(341)	-	-	**668**	695	**2 300**	2 094	**966**	958	**8,471**	8 695
Operating (loss) profit	**(1,884)**	(1 979)	-	(56)	**13,655**	14 487	**(492)**	(533)	**(1 749)**	(1,567)	**(745)**	(696)	**(1,497)**	(2 758)

4 OPERATING RESULTS – YEAR TO 31 MARCH 2007 (continued)

	Islay		Kirkwall		Stornoway		Sumburgh		Tiree		Wick	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
Turnover												
Traffic operations	**365**	301	**1,203**	1,105	**1,350**	1,278	**1,758**	1 652	**137**	113	**528**	485
Other income	**42**	29	**123**	105	**261**	215	**265**	242	**24**	25	**40**	40
Subsidies receivable	**-**	-	**-**	1	**15**	5	**8**	6	**-**	-	**204**	96
	407	330	**1,326**	1,211	**1,626**	1 498	**2,031**	1 900	**161**	138	**772**	621
Operating costs												
Staff costs	**684**	667	**2,120**	2 054	**1,992**	1 907	**2,557**	2,465	**490**	424	**1,610**	1,762
Property rates	**25**	25	**132**	136	**104**	105	**218**	163	**12**	11	**37**	39
Security,utilities materials	**220**	193	**703**	639	**712**	684	**1,063**	1 051	**100**	107	**332**	336
Repairs and maintenance	**144**	119	**338**	329	**473**	288	**551**	364	**142**	111	**355**	243
Net depreciation	**19**	15	**(12)**	(18)	**24**	23	**67**	60	**(4)**	42	**43**	49
Other operating costs	**72**	90	**216**	230	**271**	262	**1,159**	1,217	**50**	58	**360**	304
	1,164	1 109	**3,497**	3 370	**3 576**	3 269	**5,615**	5 320	**790**	753	**2,737**	2 733
Operating (loss) profit	**(757)**	(779)	**(2,171)**	(2 159)	**(1,950)**	(1 771)	**(3,584)**	(3 420)	**(629)**	(615)	**(1,965)**	(2,112)

		2007 £000	2006 £000
5	OPERATING LOSS		
5 1	*This is stated after charging*		
	Depreciation	**5,173**	4,325
	Auditors' remuneration – audit services	**12**	14
	Auditors' remuneration – non audit services	**10**	7
	Goodwill impairment		21,738
	Amortisation of other intangible assets	**290**	56
	And after crediting		
	Deferred subsidies released	**4,999**	25,612

		2007 £000	2006 £000
5 2	*Reconciliation of operating loss to net cash inflow from operating activities*		
	Operating (loss)	**(1,884)**	(1,979)
	Depreciation	**5,173**	4,325
	Deferred subsidies released	**(4,999)**	(25,612)
	Decrease/(increase) in debtors	**582**	(477)
	(Decrease)/increase in creditors	**(718)**	999
	Other non cash movements		
	Current service costs	**1,600**	1,000
	Past service costs	**100**	300
	Amortisation of other intangible assets	**290**	56
	Impairment of goodwill		21,738
	Net cash inflow from operating activities	**144**	350

		2007 £000	2006 £000
6	STAFF COSTS		
	Wages and salaries	**10,415**	9,997
	Social security costs	**879**	848
	Pension costs	**3,893**	3,442
	Other staff costs	**530**	450
		15,717	14,737

The average number of employees during the period was 304 (2006 308)

NOTES TO THE FINANCIAL STATEMENTS

		2007 £000	2006 £000
7	DIRECTORS' EMOLUMENTS		
	Emoluments	**162**	148
	Pension contributions	**19**	19

Directors' emoluments, including pension contributions, fell within the following ranges

		2007 No	2006 No
£1	£5,000		3
£5,001	£10,000	**4**	3
£15,001	£20,000	**1**	
£20,001	£25,000		2
£95,001	£100,000		1
£130,001	£135,000	**1**	

The emoluments of the Chairman were £19,540 (2006 £20,911) including pension contributions of £Nil (2006 £Nil) and of the highest paid director, Inglis Edward Lyon, were £112,626 (2006 £82,020) including pension contributions of £19,360 (2006 £16,039) The highest paid director's emoluments for 2007 include provisions for bonus payments for the two years ended 31 March 2007 whilst the emoluments for 2006 did not include provision for a bonus payment as the terms had not been agreed at 31 March 2006

Mr I Lyon was the only director for whom the company made contributions during the year who were members of the Highlands and Islands Airports Pension Scheme

Directors' emoluments include £6,803 that was paid to Solas Business Services Limited for the services of Shona MacLennan as a director during the year

		2007 £000	2006 £000
8	INTEREST RECEIVABLE AND SIMILAR INCOME		
	Interest received	**244**	136
	Expected return on pension plan assets	**2,900**	2,200
	Interest on retirement benefits liabilities	**(2,200)**	(1,900)
	Share of joint venture	**1**	1
		945	437

		2007 £000	2006 £000
9	INTEREST PAYABLE AND SIMILAR CHARGES		
	Finance advisory fees	—	266

10 TAX ON ORDINARY ACTIVITIES

	2007 £000	2006 £000
Current tax		
UK corporation tax at 19% (2006 30%)	33	284
Adjustment in respect of prior periods	(278)	
Total current tax (credit)/charge	(245)	284
Deferred tax		
Origination and reversal of timing differences	(579)	(5)
Tax on profit on ordinary activities	(824)	279

The adjustment in respect of prior periods relates to the parent company UK corporation tax provision of £278,000 made in the year ended 31 March 2006 This provision has been released in the current year, a rollover relief claim having been made in respect of the Capital Gain on the sale of the land to Inverness Airport Business Park Limited

The deferred tax credit of £579,000 relates to the historical deferred tax provision made by Inverness Air Terminal Limited This is no longer required as the assets giving rise to the deferred tax liability have now been hived up into Highlands and Islands Airports Limited and its historical tax losses of £6 1 million mean that this £579,000 provision is no longer required

10 1 Factors affecting current tax charge

The tax assessed for the period is different from the starting/standard rate of corporation tax in the UK of 19% (2006 30%) The differences are explained below

	2007 £000	2006 £000
Profit/(loss) on ordinary activities before tax	433	(690)
Tax at 19%/(30%) thereon	82	(207)
Effects of		
Adjustments in respect of prior periods	(278)	
Expenses not deductible for tax purposes	12	(174)
Other timing differences	11	8
Capital allowances in excess of net depreciation	19	20
Pension provisions not deductible for tax purposes	190	300
Utilisation of tax losses	(13)	(1)
Adjustments relating to the sale of fixed assets	(3)	338
Profit on sale of fixed assets not taxable – rollover relief claim	(265)	
Current tax (credit)/charge for period	(245)	284

11 INTANGIBLE FIXED ASSETS

	Goodwill £000	Other £000	Total £000
Cost			
At 1 April 2006	22,082	2,900	24,982
Share of joint venture	25		25
At 31 March 2007	**22,107**	**2,900**	**25,007**
Amounts provided			
At 1 April 2006	21,738	56	21,794
Provided during the year		290	290
31 March 2007	**21,738**	**346**	**22,084**
Net book value at 31 March 2007	**369**	**2,554**	**2,923**
Net book value at 31 March 2006	344	2,844	3,188

Other intangible assets relates to concession income separately identifiable as part of the acquisition of Inverness Air Terminal Limited This is being amortised over its useful economic life of 10 years

12 TANGIBLE FIXED ASSETS

Group

	Land and Buildings Freehold £000	Navaids £000	Plant and Other Equipment Vehicles Furniture £000	Runways Aprons and Main Services £000	Assets in Course of Construction and Installation £000	Total £000
Cost or valuation						
At 1 April 2006	34,452	8,227	16,079	20,684	10,205	**89,647**
Additions during year	1,462	504	398	5,481	1,652	**9,497**
Disposals during year	(11)	(12)	(215)	(549)		**(787)**
Transfers during year	217		156	9,803	(10,176)	
At 31 March 2007	**36,120**	**8,719**	**16,418**	**35,419**	**1,681**	**98,357**
Depreciation						
At 1 April 2006	(8,805)	(3,833)	(11,862)	(9,844)		**(34,344)**
Provided during year	(1,803)	(980)	(805)	(1,585)		**(5,173)**
Disposals during year	8	10	181	549		**748**
At 31 March 2007	**(10,600)**	**(4,803)**	**(12,486)**	**(10,880)**		**(38,769)**
Net book value at 31 March 2007	**25,520**	**3,916**	**3,932**	**24,539**	**1,681**	**59,588**
Net book value at 31 March 2006	25,647	4,394	4,217	10,840	10,205	55,303

Company

	Land and Buildings Freehold £000	Navaids £000	Plant and Other Equipment Vehicles Furniture £000	Runways Aprons and Main Services £000	Assets in Course of Construction and Installation £000	Total £000
Cost						
At 1 April 2006	23,322	8,227	16,048	20,684	10,205	**78,486**
Additions during year	12,506	504	427	5,481	1,652	**20,570**
Disposals during year	(11)	(12)	(215)	(549)		**(787)**
Transfers during year	217		156	9,803	(10,176)	
	36,034	**8,719**	**16,416**	**35,419**	**1,681**	**98,269**
Depreciation						
At 1 April 2006	(8,719)	(3,833)	(11,860)	(9,844)		**(34,256)**
Provided during year	(1,803)	(980)	(805)	(1,585)		**(5,173)**
Disposals during year	8	10	181	549		**748**
	(10,514)	**(4,803)**	**(12,484)**	**(10,880)**		**(38,681)**
Net book value						
At 31 March 2007	**25,520**	**3,916**	**3,932**	**24,539**	**1,681**	**59,588**
Net book value						
At 31 March 2006	14,603	4,394	4,188	10,840	10,205	44,230

The net book value of freehold land and buildings includes £312,496 in respect of land (2006 £311,752)

13 INVESTMENTS

Group

	2007 £000	2006 £000
Joint venture (a)	**2,099**	2,105
Other fixed asset investments (b)	**265**	103
	2,364	2,208

(a) Joint venture – Inverness Airport Business Park Limited

	£000
At 1 April 2006	(36)
Share of loss retained by joint venture	(58)
At 31 March 2007	**(94)**

Additional disclosures are given in respect of Inverness Airport Business Park Limited, which exceeds certain thresholds under FRS 9 "Associates and Joint Ventures", as follows

	2007 £000	2006 £000
Fixed assets	**1,470**	1,440
Current assets	**16**	32
Share of gross assets	**1,486**	1,472
Liabilities due within one year	**128**	104
Liabilities due after more than one year	**1,121**	1,086
Share of gross liabilities	**1,249**	1,190
Share of net assets	**237**	282
Redeemable shares of £1 each held by the company	**1,862**	1,823
Investment in joint venture	**2,099**	2,105

The summarised results of the joint venture company are as follows

	2007 £000	2006 £000
Turnover		
Loss before tax	**(171)**	(105)
Taxation		
Loss after tax	**(171)**	(105)

(b) Other fixed asset investments

	£000
At 1 April 2006	103
Additions	162
At 31 March 2007	**265**

Company

	Subsidiary undertakings £000	Joint ventures £000	Other investments £000	Total £000
Cost				
At 1 April 2006	28,383	2,485	103	30,971
Additions		77	162	239
Disposal/Hive up transfer	(27,986)			(27,986)
At 31 March 2007	**397**	**2,562**	**265**	**3,224**
Amounts provided				
At 1 April 2006 and 31 March 2007	**50**			**50**
Net book value at 31 March 2007	**347**	**2,562**	**265**	**3,174**
Net book value at 31 March 2006	28,333	2,485	103	30,921

NOTES TO THE FINANCIAL STATEMENTS

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows

Name of company	Holding	Proportion of shares held	Nature of Business
Subsidiary undertakings			
Airport Management Services Limited	Ordinary shares	100%	Dormant
Inverness Air Terminal Limited	Ordinary shares	100%	Non trading
Joint venture			
Inverness Airport Business Park Limited	Ordinary shares	34%	Property investment
	Redeemable shares	87%	

14 DEBTORS

	Group 2007 £000	**Company 2007 £000**	Group 2006 £000	Company 2006 £000
Trade debtors	**1,156**	**1,156**	1,514	1,117
Prepayments and accrued income	**384**	**384**	384	247
Amounts owed by subsidiary undertaking				6,636
Amounts owed by joint venture	**122**	**122**	133	133
Other debtors	**987**	**987**	1,140	1,140
	2,649	**2,649**	3,171	9,273

15 CREDITORS

	Group 2007 £000	**Company 2007 £000**	Group 2006 £000	Company 2006 £000
Amounts falling due within one year				
Trade creditors	**906**	**906**	825	781
Other creditors	**76**	**76**	544	518
Corporation tax	**33**	**33**	283	278
Amounts owed to subsidiary undertaking		**347**		
Other taxes and social security costs	**361**	**361**	375	277
Accruals and deferred income	**1,313**	**1,313**	1,137	1,042
	2,689	**3,036**	3,164	2,896

		Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
16	PROVISION FOR LIABILITIES AND CHARGES				
	Deferred tax			579	
	Onerous contract provision				21,738
				579	21,738
	Movement on deferred tax				
	At 1 April	**579**			
	Hive up transfer		**579**		
	Movement	**(579)**	**(579)**	579	
	At 31 March			579	
	Analysis of deferred tax balances				
	capital allowances in advance of depreciation	**812**	**812**	579	
	timing differences relating to pensions	**(300)**	**(300)**		
	trading losses	**(512)**	**(512)**		
				579	

A deferred tax asset has not been recognised in respect of timing differences related to historical trading losses incurred by the company amounting to £6 1 million, which will be recovered only if the company begins to make significant taxable profits

There is insufficient evidence that this asset will be recovered to allow its recognition in these accounts

The estimated value of the deferred tax asset not recognised, measured at a standard rate of 30% is £1,330,000 (2006 £2,211,000) £1 7 million of the total tax losses are being used to reduce the deferred tax liability to £Nil meaning the deferred tax asset is in relation to the remaining £4 4 million of tax losses

		Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
17	DEFERRED SUBSIDIES				
	Balance at 1 April	**58,128**	**56,022**	35,797	35,797
	Subsidies receivable	**9,664**	**9,664**	45,941	45,941
	Deferred grants acquired with subsidiary undertaking			2,129	
	Hive up transfer		**(832)**		
	Released to profit and loss account	**(4,999)**	**(4,708)**	(25,612)	(25,589)
	Released against asset disposals	**(31)**	**(31)**	(127)	(127)
	Balance at 31 March	**62,762**	**60,115**	58,128	56,022

18 SHARE CAPITAL

	Company			
	Authorised		Issued and fully paid	
	2007 Number	2006 Number	**2007 £000**	2006 £000
Ordinary shares of £1 each	**50,000**	50,000	**50**	50

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

Group

	Share Capital £000	Profit and Loss account £000	Total £000
At 1 April 2006	50	5,541	5,591
Retained profit for the year		1,257	**1,257**
Actuarial gain on pension scheme		1,000	**1,000**
At 31 March 2007	**50**	**7,798**	**7,848**

The cumulative amount of goodwill written off at 31 March 2007 is £21,738,000 (2006 £21,738,000)

Included in the profit and loss account above is a cumulative amount of £400,000 (2006 £400,000) in respect of the retirement benefits asset net of deferred tax

Company

	Share Capital £000	Profit and Loss account £000	Total £000
At 1 April 2006	50	5,670	5,720
Retained profit for the year		1,315	**1,315**
Actuarial gain on pension scheme		1,000	**1,000**
At 31 March 2007	**50**	**7,985**	**8,035**

20 PENSION COSTS

The information below is disclosed in accordance with the provisions of FRS17

This note excludes assets and liabilities in respect of money purchase AVCs and insured pensions

	2007 £000	2006 £000	2005 £000	2004 £000	2003 £000
Total market value of assets	**48,400**	43,100	32,700	26,300	21,100
Present value of the scheme's liabilities	**48,000**	42,700	32,600	28,600	27,600
Surplus/(deficit) in the scheme	**400**	400	100	(2,300)	(6,500)

As a deferred tax asset has not been recognised, see note 13, the related deferred tax liability of £120,000 on the above surplus in the scheme has not been recognised

The Company operates a defined benefit scheme in the UK The values of the scheme's liabilities have been determined by a qualified actuary based on the results of an actuarial valuation as at 31 December 2004, updated to the balance sheet date, and using the following assumptions

	2007 %pa	2006 %pa	2005 %pa	2004 %pa	2003 %pa
Discount rate	**5 4**	5 0	5 4	5 5	5 4
Rate of increase in salaries	**4 6**	4 3	4 3	4 3	4 1
Rate of increase in pensions in payment	**3 2**	2 9	2 9	2 9	2 7
Rate of increase in pensions deferment	**3.2**	2 9	2 9	2 9	2 7
Rate of inflation	**3.2**	2 9	2 9	2 9	2 6
Mortality table	**PA92C2020**	PA92C2020	PA92C2020	PA92C2020	PA80 5

The company's share of the assets in the Highlands and Islands Airports Pension Scheme and the expected rate of return were

	Expected long term return %	**Value at 2007 £000**	Expected long term return %	Value at 2006 £000	Expected long term return %	Value at 2005 £000
Equities	**7.5**	**32,200**	7 5	28,100	7 50	20,000
Other	**5.0**	**300**	4 5	300	4 75	300
Bonds	**5 4**	**15,900**	5 0	14,700	5 00	12,400
Total market value of assets		**48,400**		43,100		32,700

	2007 £000	2006 £000
Analysis of amount charged to operating profit		
Current service cost (excluding employee contributions)	**3,800**	3,200
Past service cost	**100**	300
Total operating charge	**3,900**	3,500
Analysis of amount credited to other finance income		
Expected return on pension scheme assets	**2,900**	2,200
Interest on pension scheme liabilities	**(2,200)**	(1,900)
Net return	**700**	300
Analysis of amount recognised in STRGL		
Actual less expected return on assets	**(100)**	5,500
Experience (losses)/gains on liabilities	**(300)**	300
Effect of change in assumptions on liabilities	**1,400**	(4,500)
Actuarial gain recognised in STRGL	**1,000**	1,300

The Company has agreed to contribute at a rate of 22 0% of pensionable salaries for the next accounting year

	2007 £000	2006 £000
Movement in surplus/(deficit) during the year		
Surplus in scheme at start of the year	**400**	100
Current service cost (excluding employee contributions)	**(3,800)**	(3,200)
Cash contribution (excluding employee contributions)	**2,200**	2,200
Past service cost	**(100)**	(300)
Other finance income	**700**	300
Actuarial gain	**1,000**	1,300
Surplus in scheme at end of the year	**400**	400

History of experience gains and losses	**2007**	2006	2005	2004	2003
Difference between expected and actual returns on scheme assets					
amount	**(100)**	5,500	1,900	3,600	8,400
% of assets at year end	**(0%)**	13%	6%	14%	40%
Experience (losses)/gains on scheme liabilities					
amount	**(300)**	300	1,800	1,800	(300)
% of liabilities at year end	**(1%)**	1%	6%	6%	(1%)
Total gain recognised in STRGL					
amount	**1,000**	1,300	3,200	4,100	11,600
% of liabilities at year end	**2%**	3%	10%	14%	42%

	Group 2007 £000	**Company 2007 £000**	Group 2006 £000	Company 2006 £000
21 CAPITAL COMMITMENTS				
Contracted	**503**	**503**	2,749	2,749

22 RELATED PARTIES

(a) During the year the company received subsidies totalling £22,198,000 from the Scottish Ministers

(b) During the year the company contributed £77,000 to Inverness Airport Business Park Limited, a joint venture company, towards the construction of the new Inverness airport access road for which redeemable shares of £39,000 were received

(c) The directors agreed to restructure the group by hiving up the trade, assets and liabilities of Inverness Air Terminal Limited (IATL) into the parent company Highlands and Islands Airports Limited (HIAL) Net assets of £3,310,739 were transferred from IATL at their net book value

These transactions were entered into on an arm's length basis

NOTES TO THE FINANCIAL STATEMENTS

ECONOMIC REGULATION STATEMENT

FOR THE YEAR ENDED 31 MARCH 2007

Highlands and Islands Airports Limited 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
AIRPORT OPERATIONAL ACTIVITIES		
Airport Income		
Airport charges	11,236	
Subsidies	14,265	
	25,501	
Costs	(28,593)	(3,092)
Other Income		
Revenue	2,399	
Costs	(1,191)	1,208
NON OPERATIONAL ACTIVITIES		
The group has no such activities under the Act		
Group operating loss for the period		(1,884)

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

GROUP FIVE YEAR SUMMARY

RESULTS FOR THE YEARS ENDED 31 MARCH

	2007	2006	2005	2004	2003
			(As restated)	(As restated)	
	£000	£000	£000	£000	£000
PROFIT AND LOSS ACCOUNT					
Traffic operations and other income	**13,635**	11,913	10,826	9,806	9,229
Subsidies					
Total receivable	**23,929**	60,704	21,505	24,545	25,149
Capital carried to deferred income	**(9,664)**	(45,941) *	(4,101)	(7,159)	(9,203)
Revenue	**14,265**	14,763	17,404	17,386	15,946
less net operating costs	**29,784**	28,655	29,555	27,905	26,543
Operating (loss)	**(1,884)**	(1,979)	(1,325)	(713)	(1,368)
Share of joint venture	**(59)**	(37)			
Profit/(loss) on disposal of fixed assets	**1,431**	1,155	(22)	**	
Interest receivable	**945**	437	407	70	64
Interest payable and similar charges		(266)			
Tax on ordinary activities	**824**	(279)			
Profit/(loss) for the financial year	**1,257**	(969)	(940)	(643)	(1,304)
BALANCE SHEET					
Fixed assets	**64,875**	60,699	39,093	38,863	34,826
Net current assets	**5,335**	3,199	1,864	1,516	1,503
Provision for liabilities and charges		(579)			
Accruals and deferred income	**(62,762)**	(58,128)	(35,797)	(35,079)	(30,386)
Retirement benefits – asset/(liability)	**400**	400	100	(2,300)	***
	7,848	5,591	5,260	3,000	5,943
Share capital	**50**	50	50	50	50
Reserves	**7,798**	5,541	5,210	2,950	5,893
Total shareholder's equity	**7,848**	5,591	5,260	3,000	5,943

* The capital subsidy figure includes £28,333,000 which was used to purchase the entire share capital of Inverness Air Terminal Limited on 20 January 2006 and £6,624,000 which was used to repay a long term loan that existed at that date

** The profits/(losses) on disposal of fixed assets for 2003 and 2004 are disclosed within net operating costs

*** The results for 2003 have not been adjusted for FRS 17

STATISTICS	**2007**	2006	2005	2004	2003
Total passengers	**1,232,782**	1,152,895	1,015,657	933,779	864,301
Total aircraft movements	**101,223**	93,234	82,764	81,064	76,119

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIGHLANDS AND ISLANDS AIRPORTS LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Highlands and Islands Airports Limited for the year ended 31 March 2007 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes 1 to 22 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements This other information comprises only the Chairman's Statement, the Statement of Internal Control, the Economic Regulation Statement and the Group Five Year Summary We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

We review whether the statement on page 7 complies with Scottish Executive guidance on statements of system of internal control We report if it does not comply with the guidance, or if the statement is misleading or inconsistent with other information we are aware of from our audit

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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 financial statements 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 financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2007 and of the group's loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- the information given in the directors' report is consistent with the financial statements, and
- in all material aspects, the income and expenditure presented in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them

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 LLP

Ernst & Young LLP
Registered auditor
Inverness

12/6/2007