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HIGHLANDS AND ISLANDS AIRPORTS LIMITED

ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

2008/2009

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DIRECTORS

Grenville S Johnston OBE TD CA	Chairman
Inglis E Lyon	Managing Director
Michael B Cantlay	
Andrew S Castell	
Charles A Goodlad	
Linn Phipps	
Alan Shaw	

COMPANY SECRETARY

Norman Ross 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 financial statements for the year ended 31 March 2009.

RESULTS AND DIVIDENDS

The trading loss for the year, after taking account of taxation, amounted to £303,000. 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 provide and operate safe, secure and efficient airports which support the communities we serve.

REVIEW OF THE BUSINESS

Subsidies from the Scottish Ministers received for the year ended 31 March 2009 totalled £26,828,000 made up of revenue of £17,381,000 and capital of £9,447,000.

Passenger numbers and aircraft movements across the group increased by 1% and 27% respectively in the year. Excluding Dundee Airport Ltd (DAL) these variances have decreased by 3% and increased by 1% respectively. Freight tonnage decreased by 4%.

FUTURE DEVELOPMENTS

The Directors aim to ensure that the group continues to operate and manage its 11 airports in accordance with Scottish Ministerial policy and to support the social and economic welfare of the areas concerned. Significant developments over the next year will include the completion of a project taking the provision of airport security services in house, a continued development of air services within and between the island communities and direct flights to what we hope will be our first major European destination.

CAPITAL EXPENDITURE

Investment in new fixed assets amounted to £10,287,000. Major capital works undertaken included: -

a) At Benbecula, work continued on the Coastal protection project at a cost of £841,000.

b) At Inverness, work on the project to provide a dedicated airport radar service was completed at a cost of £1,849,000.

c) At Kirkwall, as part of a group wide project to improve safety, areas of the airfield were ramped at a cost of £443,000.

d) At Stornoway, a runway was resurfaced at a cost of £2,299,000 and a further £350,000 was committed to the project that commenced during the previous year to replace the Airfield Ground Lighting.

e) At Sumburgh, a project to replace the Airfield Ground Lighting commenced at a cost of £1,735,000.

f) Across the group, a total of £826,000 was spent on enhanced security measures including improved boundary fencing, traffic management measures, upgraded CCTV and other equipment.

AIRPORT CONSULTATIVE COMMITTEES

Airport Consultative Committees are established 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, resolve difficulties and assess recommendations made by the constituent members. Additionally representation is made at various transport forums when requested.

SAFETY AND SECURITY

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

AIR NAVIGATION SERVICE PROVIDER

In accordance with EC Single European Sky (SES) legislation, HIAL is certificated and designated as an Air Navigation Services Provider (ANSP) by the UK Civil Aviation Authority.

The following information for the year 2008/09 is provided in accordance with the reporting requirements set out in Commission Regulation (EC) No 2096/2005.

- The level, quality and safety of service provided by HIAL met its ANSP obligations and were subject to audit by the UK CAA.
- HIAL's performance as an ANSP met the objectives set out in its annual plan.
- During the year HIAL formally commissioned an approach radar service at Inverness Airport following capital investment of £3.6 million and 36 months of project work. The successful conclusion of this project saw Inverness become self sufficient in terms of local radar provision.
- During the year HIAL received approval from the UK CAA to introduce a programme of dual validation for its air traffic controllers. This will enable controllers to work at more than one airport in the HIAL group and provide greater flexibility in the resourcing of Air Traffic Services (ATS).
- The financial results of HIAL for the period 1 April 2008 to 31 March 2009 are contained within these 2008/09 Annual Report and Group Accounts.
- During the year HIAL undertook consultation with the users of its services via the following channels:
    - Quarterly meetings of Airport Consultative Committees at its 11 airports.
    - Biannual meetings of its Operations, Safety & Security and Airline Safety & Operations groups.
    - Annual consultation with users on its Terms and Conditions of Use and Airport Charges.
- HIAL is committed to ensuring that appropriate staffing levels are maintained to fulfil its role as an ANSP, subject to the availability of suitably qualified personnel. Due to the ongoing shortage of qualified air traffic controllers across the EU, HIAL maintained a robust recruitment, retention and training policy for air traffic control staff which included recruiting fully, part and unqualified personnel to resource ATS. HIAL is a member of the CAA's Training Communications Group which meets biannually to review and consider training policy and initiatives and HIAL is active in promoting training innovation. Regular dialogue is maintained with two approved UK ATS training colleges. As an ANSP, HIAL has a permanent seat on the Air Traffic Services Regulatory Advisory Committee and thus an input to ANSP regulatory issues.
    - Four controllers received their unit licence endorsements from the CAA during the year. HIAL has recruited two Controllers to be used as part of the cross validation programme. Both need additional training and relevant courses have been booked. HIAL also started a limited of programme of establishing grouped airports and has started a trial of cross valid support amongst one grouping.

DIRECTORS' REPORT

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 2009 the company had an average of 26 days' purchases outstanding in trade creditors.

HUMAN RESOURCES

At the year-end the group employed 381 staff. This represents an increase of 7 on the previous year total.

Over the course of the year the group recruited to fill 36 permanent posts plus a number of fixed term positions. Staff turnover through retirement, resignation and death in service saw 20 people leave the group while promotions, re-grading and transfers resulted in 35 internal staff changes.

TRAINING AND DEVELOPMENT

We recognise that our staff are our most important asset and play a pivotal role in the successful delivery and development of our airport services. In recognising this, we aim to encourage a culture of continuous improvement with a focus on skill acquisition and maintenance across the company, to meet the needs of the business and of the communities we serve.

Accordingly, training and development strategies are continually reviewed to ensure that the structure of these supports ongoing staff development and the consequential development of the business. Work is underway to develop a Management Development Programme for HIAL, and this coming year will see a focus on a review of performance appraisal, linked to the development of a competency framework. We continue to drive forward with our Air Traffic Control recruitment and training programme, which in addition to our Dual Validation scheme, when established, will provide a degree of insurance in the face of an industry wide shortage of air traffic controllers. Having received regulatory approval for our in house maintenance of fire service competency programme at HIAL, our goal continues to be the roll out of an identical scheme for Dundee Airport Limited with all its resultant benefits.

Communication to staff flows through the management structure of the company on a regular basis and given the remote nature of our aerodromes remains challenging. In May 2008 the company achieved Investors in People reaccreditation and is committed to the continuous improvement programme.

EMPLOYMENT POLICIES

The HIAL Group continues to maintain and develop a framework of policies which ensure that we provide a positive and supportive working environment whilst meeting or exceeding statutory obligations. A best practice review of employment policies is being progressed through a joint management and Trade Union working group.

Last year saw preparatory work undertaken with staff and trade unions on our Drug and Alcohol Policy, which was implemented in February 2009.

The group recognises four Trades Unions (PCS, Prospect, Unite and Unison). All staff are encouraged to be a member of the appropriate union. Joint management/Trades Unions meetings are held at least quarterly.

As a group, 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.

POLITICAL AND CHARITABLE CONTRIBUTIONS
During the year, the group made no political contributions and various charitable contributions totalling £1,892 (2008: £1,000).

GOING CONCERN
The parent company sets an annual budget which aims to balance income, expenditure and operating 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 operating subsidy provisions for the year to 31 March 2009 were set at £26.2 million and this was drawn down during the year. The operating subsidy provisions have been set at £26.2 million for the year ending 31 March 2010. This is considered by the Directors to be adequate to sustain the group as a going concern.

PRINCIPAL RISKS AND UNCERTAINTIES
The group has an established risk committee, the Risk Oversight Group. The Managing Director, risk manager, 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. The principal risks and uncertainties facing the group are broadly grouped as legislative and competitive.

- Legislative risks
  Airport operations across the group are regulated by the Health and Safety Executive, UK Civil Aviation Authority and security standards are set by the Department for Transport. These bodies regularly review and update their standards and requirements and any new Directives are likely to have a material impact on the cost of airport operations.

- Competitive risks
  The income for the group is derived from a limited number of airline customers. Any external pressures faced by those customers may lead to them reviewing their operating schedule and this in turn may impact on group income and costs.

Overall group strategy and direction is determined by the Board of Directors and by Scottish Government Policy. In mitigation of the risks identified above, the Scottish Government has committed to providing £26.2 million for the financial year 2009/10 and this may be amended due to operational circumstances and by agreement with the Scottish Government and HIAL. As outlined in the going concern statement above, this is considered by the Directors to be adequate to sustain the group as a going concern.

AUDITORS
Ernst & Young LLP were reappointed as auditors at the Annual General Meeting on 1 August 2008. A resolution to reappoint Ernst & Young LLP will be laid before the Annual General Meeting on 31 July 2009.

DIRECTORS' REPORT

DIRECTORS

The Directors who served during the year to 31 March 2009 and subsequently are: -

Grenville S Johnston	Chairman	(appointed 1 February 2009)
David F Sutherland	Chairman	(resigned 31 January 2009)
Inglis E Lyon	Managing Director	
Michael B Cantlay	Director	
Andrew S Castell	Director	
Charles A Goodlad	Director	
Linn Phipps	Director	
Alan Shaw	Director	(appointed 19 June 2008)

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Directors have the benefit of the indemnity provisions contained in the company's Articles of Association. This provision, which is a qualifying third party indemnity provision as defined by the Companies Act 2006, was in force throughout the financial year and is currently in force. The company also purchased and maintained throughout the financial year liability insurance for its Directors.

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 group'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 group'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 group's auditors are aware of that information.

By order of the Board

Norman Ross CA
Company Secretary
11 June 2009

STATEMENT ON INTERNAL CONTROL

SCOPE OF RESPONSIBILITY

As Accountable Officer I have responsibility for maintaining a system of internal control that supports the achievement of the company's aims, objectives and policies agreed between the Board and the Scottish Ministers, whilst safeguarding the public funds and assets for which I am responsible.

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government 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 Government, guidance in the SPFM is applicable.

PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to mitigate 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 an active process designed to identify the principal risks to the achievement of the company's aims, objectives and policies, 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 2009 and up to the date of approval of the annual report and accounts.

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. All areas of company risk are managed through the Risk Oversight Group, which reports through the Director Safety & Operations to both the HIAL and DAL Boards.

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.

The terms of reference for the Risk Oversight Group are as follows: -

- Identify new and emerging risks (including opportunities) facing HIAL/DAL and its operations;
- Ensure significant risks are being effectively managed across the business by reviewing the HIAL/DAL risk register and updating as necessary, giving consideration to HIAL/DAL's risk exposure;
- Coordinate cross functional activities to ensure effective, efficient controls are developed and maintained;
- Review the operation of internal controls within HIAL/DAL and identify any gaps;
- Review the operation of risk and safety management activities within HIAL/DAL and identify any gaps;
- Recommend improvements to procedures and processes to reflect best business practice and the needs of the business;
- Support and review continuity and recovery plans ensuring the business remains resilient against all eventualities i.e. business continuity plans, pandemic plans etc;

- In relation to identified risks, identify common trends arising from internal/external audits, incident investigations, lessons learnt etc and drive forward recommendations for suitable actions;
- Promote and encourage ownership of corporate responsibility in regards to risk management;
- Drive forward new risk management initiatives within the business;
- Communicate risk and share good practice;
- Review and monitor risk management training;
- Undertake specific activities as directed by the HIAL/DAL Board/s.

Safety Management Systems

HIAL and DAL were accredited as Air Navigation Service Providers in 2007, which involved 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 and security are our first priorities in all our aviation activities. The initiatives for the coming year are: -

- 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 covering both safety and security matters;
- Develop an operational requirements awareness programme for all our staff;
- 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 and security 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 rigorous 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 review and improvement; developing systems in response to any relevant reviews and developments in best practice in all areas.

STATEMENT ON INTERNAL CONTROL

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;
- Scrutiny of key strategic and operational areas by the Board.

The following processes are established: -

The Board

The Board is largely 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 seven members. The non-executive Chairman, the executive Managing Director and four non-executive Directors are appointed by Scottish Ministers. The executive Director Safety & Operations was appointed to the Board by the Chairman in June 2008 given the safety critical nature of the company's business. 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 A S Castell, Dr C A Goodlad and Mrs L Phipps. The Committee, chaired by Mr A S Castell, 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.

STATEMENT ON INTERNAL CONTROL

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.

Inglis Lyon
Managing Director
11 June 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements 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 group and of the profit or loss of the group for that period. In preparing those financial statements, 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 financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group 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 2009

	Notes	2009 £000	2008 £000
TURNOVER			
Continuing operations: -			
Ongoing		**17,057**	14,771
Acquisitions – Dundee Airport Limited		**-**	403
GROUP TURNOVER	2	**17,057**	15,174
SUBSIDIES			
Total receivable	3	**26,909**	29,306
Capital carried to deferred income	3	**(9,517)**	(13,964)
Revenue	3	**17,392**	15,342
		34,449	30,516
DIRECT OPERATING COSTS		**(31,877)**	(28,705)
GROSS PROFIT		**2,572**	1,811
ADMINISTRATIVE EXPENSES		**(3,902)**	(3,518)
OPERATING (LOSS)			
Continuing operations: -			
Ongoing		**(1,330)**	(1,700)
Acquisitions – Dundee Airport Limited		**-**	(7)
GROUP OPERATING (LOSS)	4,5	**(1,330)**	(1,707)
Share of operating (loss) in joint venture		**(77)**	(118)
TOTAL OPERATING (LOSS): - GROUP AND SHARE OF JOINT VENTURE		**(1,407)**	(1,825)
PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS		**127**	9
		(1,280)	(1,816)
BANK INTEREST RECEIVABLE		**449**	379
OTHER FINANCE INCOME	8	**512**	694
(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		**(319)**	(743)
TAX ON (LOSS) ON ORDINARY ACTIVITIES	9	**16**	19
(LOSS) FOR THE FINANCIAL YEAR ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY		**(303)**	(724)

Notes 1 to 24 form part of these financial statements

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 MARCH 2009

	2009 £000	2008 £000
(Loss) for the financial year excluding share of losses of joint venture	**(226)**	(606)
Share of joint venture's (loss) for the year	**(77)**	(118)
(Loss) for the financial year attributable to members of the parent company	**(303)**	(724)
Actuarial (loss)/gain recognised on defined benefit pension schemes	**(2,748)**	5,324
Total (loss)/gain recognised since last annual report	**(3,051)**	4,600

Notes 1 to 24 form part of these financial statements

GROUP BALANCE SHEET
AS AT 31 MARCH 2009

	Notes	2009 £000	2009 £000	2008 £000	2008 £000
FIXED ASSETS					
Intangible assets	10		**2,343**		2,633
Tangible assets	11		**85,506**		84,091
Investments	12				
Investment in joint venture: -					
Share of gross assets		**1,482**		1,483	
Share of gross liabilities		**(1,440)**		(1,365)	
Element redeemable to parent company		**1,862**		1,862	
		1,904		1,980	
Other investments		**283**		283	
			2,187		2,263
			90,036		88,987
CURRENT ASSETS					
Stocks	13	**39**		52	
Debtors	14	**3,556**		3,709	
Cash at bank and in hand		**12,292**		13,195	
		15,887		16,956	
CREDITORS: *Amounts falling due within one year*	15	**(5,352)**		(5,722)	
NET CURRENT ASSETS			**10,535**		11,234
TOTAL ASSETS LESS CURRENT LIABILITIES			**100,571**		100,221
PROVISIONS FOR LIABILITIES	17		-		-
ACCRUALS AND DEFERRED INCOME					
Deferred subsidies	18		**(93,633)**		(92,614)
NET ASSETS EXCLUDING PENSION ASSET			**6,938**		7,607
Defined benefit pension asset	21		**2,459**		4,841
NET ASSETS			**9,397**		12,448
CAPITAL AND RESERVES					
Share capital	19		**50**		50
Profit and loss account	20		**9,347**		12,398
			9,397		12,448

Grenville Johnston CA
Chairman

Inglis Lyon
Managing Director
11 June 2009

Notes 1 to 24 form part of these financial statements

COMPANY BALANCE SHEET
AS AT 31 MARCH 2009

	Notes	2009 £000	2008 £000
FIXED ASSETS			
Tangible assets	11	**67,079**	63,417
Investments	12	**3,192**	3,192
		70,271	66,609
CURRENT ASSETS			
Debtors	14	**3,496**	3,513
Cash at bank and in hand		**11,777**	12,701
		15,273	16,214
CREDITORS: Amounts falling due within one year	15	**(5,046)**	(5,305)
NET CURRENT ASSETS		**10,227**	10,909
TOTAL ASSETS LESS CURRENT LIABILITIES		**80,498**	77,518
PROVISIONS FOR LIABILITIES	17	**-**	-
ACCRUALS AND DEFERRED INCOME			
Deferred subsidies	18	**(73,621)**	(70,053)
NET ASSETS EXCLUDING PENSION ASSET		**6,877**	7,465
Defined benefit pension asset	21	**2,614**	4,900
NET ASSETS		**9,491**	12,365
CAPITAL AND RESERVES			
Share capital	19	**50**	50
Profit and loss account	20	**9,441**	12,315
		9,491	12,365

Grenville Johnston CA
Chairman

Inglis Lyon
Managing Director
11 June 2009

Notes 1 to 24 form part of these financial statements

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2009

	Notes	£000	2009 £000	£000	2008 £000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	5.2		**(943)**		768
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received			**474**		369
TAXATION					
Corporation tax received/(paid)			**5**		(14)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Payments to acquire tangible fixed assets		**(10,081)**		(9,149)	
Payments to acquire investments		**-**		(18)	
Receipt of capital subsidy: -					
Scottish Ministers		**9,447**		13,940	
European Regional Development Fund		**-**		250	
Other		**-**		14	
Sale of tangible fixed assets		**195**		30	
			(439)		5,067
ACQUISITIONS AND DISPOSALS					
Purchase price adjustment			**-**		1,630
(DECREASE)/INCREASE IN CASH			**(903)**		7,820

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2009 £000	2008 £000
(Decrease)/Increase in cash	**(903)**	7,820
Net funds at 1 April	**13,195**	5,375
Net funds at 31 March	**12,292**	13,195

Notes 1 to 24 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2009

BASIS OF PREPARATION

1. ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION

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

In preparing the financial statements for the current year, the group has adopted the amendment to FRS 17 "Retirement Benefits". The adoption of the amendment to FRS 17 has resulted in a change in accounting policy for the valuation of quoted securities included in plan assets. The fair values of these securities are now based on the current bid price, rather than the mid market value as previously used by the group. The adoption of this amendment does not give rise to a material impact on the defined benefit pension asset as at 1 April 2007 (1 December 2007 for TSF) or 31 March 2008. There was no material impact on the profit and loss account. The amendment to FRS 17 also aligns the disclosures in the standard with those of the equivalent International Accounting Standard 19. These disclosures have been given in note 21.

1.2 BASIS OF CONSOLIDATION

The group financial statements consolidate the financial statements 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 loss for the year was £246,000 (2008: £570,000).

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 financial statements, 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 less accumulated depreciation. 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 STOCKS

Stocks are stated at the lower of cost and net realisable value.

1.8 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 are released to the profit and loss account over the expected useful lives of the relevant assets.

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

1.9 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.

1.10 LEASES

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

1.11 PENSION COSTS

The parent 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 parent company.

Dundee Airport Limited's employees are members of the Tayside Superannuation Fund, a defined benefit scheme, which is operated by Dundee City Council. 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 plans to ensure that plan assets are sufficient to cover future liabilities. For the purpose of FRS 17 disclosures, 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, based on an index of appropriate term and currency to the liability. Any increase in the present value of the liabilities of the defined benefit pension plans expected to arise from employee service in the period is charged against operating profit. The expected return on plan assets and the increase during the period in the present value of plan 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.

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

HIAL's operating subsidy, which is receivable from Scottish Government, is for the continuation of operations at its 11 airports. Dundee Airport is operated through a subsidiary company.

		2009	2008
		£000	£000
REVENUE			
Scottish Government	Operating subsidy	**16,753**	14,451
Scottish Government	Route Development Fund	**454**	629
Scottish Government	Route Development Fund	**2**	11
Scottish Government	Air Discount Scheme	**172**	180
Scottish Government	Barra Hard Runway study	**-**	6
Miscellaneous	Sumburgh Runway repairs	**2**	65
Miscellaneous	Marketing assistance	**7**	-
HIEIEH	Inverness Cycle Shelters	**2**	-
		17,392	15,342
CAPITAL			
Scottish Government	Operating subsidy	**9,447**	13,940
Miscellaneous	Terminal Building Gateway projects	**-**	14
ERDF	Sumburgh Runway extension	**-**	10
Miscellaneous	Sumburgh Hangar Door Contribution	**70**	-
		9,517	13,964
		26,909	29,306

4. GROUP OPERATING RESULTS

	2009			2008		
	Turnover	**Operating Costs**	**Operating Loss**	Turnover	Operating Costs	Operating Loss
	£000	**£000**	**£000**	£000	£000	£000
Barra	**166**	**(683)**	**(517)**	178	(651)	(473)
Benbecula	**631**	**(2,164)**	**(1,533)**	595	(2,061)	(1,466)
Campbeltown	**240**	**(1,051)**	**(811)**	240	(1,053)	(813)
Dundee Airport Limited *	**1,668**	**(4,289)**	**(2,621)**	403	(1,505)	(1,102)
Inverness	**7,358**	**(9,884)**	**(2,526)**	7,203	(9,359)	(2,156)
Islay	**463**	**(1,247)**	**(784)**	440	(1,243)	(803)
Kirkwall	**1,673**	**(3,647)**	**(1,974)**	1,510	(3,602)	(2,092)
Stornoway	**1,956**	**(3,965)**	**(2,009)**	1,898	(3,709)	(1,811)
Sumburgh	**2,793**	**(5,833)**	**(3,040)**	2,541	(5,629)	(3,088)
Tiree	**218**	**(821)**	**(603)**	174	(806)	(632)
Wick	**828**	**(2,665)**	**(1,837)**	791	(2,704)	(1,913)
	17,994	**(36,249)**	**(18,255)**	15,973	(32,322)	(16,349)
Consolidation of inter group trading	**(470)**	**470**	**-**	(99)	99	-
Subsidies receivable from Scottish Government	**16,925**	**-**	**16,925**	14,642	-	14,642
	34,449	**(35,779)**	**(1,330)**	30,516	(32,223)	(1,707)

* The 2008 results represent Dundee Airport Limited's trading for the 4 months ending 31 March 2008.

5. GROUP OPERATING LOSS

		2009	2008
		£000	£000
5.1	*This is stated after charging: -*		
	Depreciation	**8,235**	6,596
	Auditors' remuneration – audit services	**23**	29
	Auditors' remuneration – technical advice	**30**	6
	Amortisation of other intangible assets	**290**	290
	And after crediting: -		
	Deferred subsidies released	**7,948**	6,280

		2009	2008
		£000	£000
5.2	*Reconciliation of operating loss to net cash inflow from operating activities*		
	Group operating (loss)	(1,330)	(1,707)
	Depreciation	8,235	6,596
	Deferred subsidies released	(7,948)	(6,280)
	Decrease/(increase) in debtors	99	(848)
	Decrease/(increase) in stocks	13	(52)
	(Decrease)/Increase in creditors	(448)	1,679
	Other non-cash movements		
	Current service costs	146	1,090
	Past service costs	-	-
	Amortisation of other intangible assets	290	290
	Net cash (outflow)/inflow from operating activities	(943)	768

6. STAFF COSTS

	2009	2008
	£000	£000
Wages and salaries	13,042	11,401
Social security costs	1,050	937
Pension costs	2,855	3,478
Other staff costs	617	747
	17,564	16,563

The average monthly number of employees during the year was made up as follows: -

	2009	2008
	No.	No.
Administration	54	56
Air Traffic Services	74	67
Airport Fire Service	190	188
Engineering	21	18
Management	40	41
	379	370

7. DIRECTORS' EMOLUMENTS

	2009	2008
	£000	£000
Emoluments	234	162
Pension contributions	34	20

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

	2009 No.	2008 No.
£1 - £5,000	**1**	2
£5,001 - £10,000	**4**	4
£15,001 - £20,000	**1**	-
£20,001 - £25,000	**-**	1
£80,001 - £85,000	**1**	-
£130,001 - £135,000	**1**	1

The emoluments of the Chairman from 1 April 2008 to 31 January 2009 were £18,090 and from 1 February 2009 to 31 March 2009 were £3,647 (2008: £21,451) including pension contributions of £Nil (2008: £Nil) and of the highest paid Director, Inglis Edward Lyon, were £112,266 (2008: £111,206) excluding pension contributions of £20,256 (2008: £19,989).

Mr I Lyon and Mr A Shaw were the only Directors' for whom the group made contributions during the year as members of the Highlands and Islands Airports Pension Scheme.

8. OTHER FINANCE INCOME

	2009 £000	2008 £000
Expected return on pension scheme assets	**3,622**	3,435
Interest on pension scheme liabilities	**(3,110)**	(2,741)
Share of joint venture	**-**	-
	512	694

9. TAX

(a) Tax on (loss) on ordinary activities

The tax charge is made up as follows: -

	2009 £000	2008 £000
Current tax: -		
UK corporation tax at 28% (2008: 30%)	**(16)**	-
Adjustment in respect of prior periods	**-**	(19)
Total current tax credit	**(16)**	(19)
Deferred tax: -		
Origination and reversal of timing differences	**-**	-
Tax on (loss) on ordinary activities	**(16)**	(19)

(b) Factors affecting the current tax charge

The tax assessed for the period is different from the standard rate of corporation tax in the UK of 28% (2008: 30%). The differences are reconciled below: -

	2009 **£000**	2008 £000
(Loss) on ordinary activities before tax	**(330)**	(743)
Tax at 28% (2008: 30%) thereon: -	**(92)**	(223)
Effects of: -		
Adjustments in respect of prior periods	**(16)**	(19)
Expenses not deductible for tax purposes	**4**	36
Share of Joint Venture loss not tax deductible	**25**	36
Net depreciation in excess of capital allowances	**74**	26
Pension provisions not deductible for tax purposes	**(102)**	119
Tax losses carried forward/(utilised)	**95**	2
Adjustments relating to the sale of fixed asset	**(4)**	4
Total current tax (credit) (note 9(a))	**(16)**	(19)

10. INTANGIBLE FIXED ASSETS

	Goodwill **£000**	**Other** **£000**	**Total** **£000**
COST			
At 1 April 2008 and 31 March 2009	**22,107**	**2,900**	**25,007**
AMOUNTS PROVIDED			
At 1 April 2008	21,738	636	**22,374**
Provided during the year	-	290	**290**
At 31 March 2009	**21,738**	**926**	**22,664**
NET BOOK VALUE			
At 31 March 2009	**369**	**1,974**	**2,343**
At 31 March 2008	369	2,264	2,633

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.

11. TANGIBLE FIXED ASSETS

GROUP

	Land and Buildings Freehold £000	Land and Buildings Leasehold £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 2008	36,625	3,801	8,460	20,946	52,156	5,774	**127,762**
Additions during year	221	-	1,848	843	50	7,323	**10,285**
Disposals during year	-	-	(105)	(1,076)	(11)	(4)	**(1,196)**
Transfers during year	28	-	1,807	611	-	(2,446)	-
At 31 March 2009	**36,874**	**3,801**	**12,010**	**21,324**	**52,195**	**10,647**	**136,851**
DEPRECIATION							
At 1 April 2008	(12,668)	(120)	(4,909)	(12,721)	(13,253)	-	**(43,671)**
Provided during year	(2,046)	(360)	(1,222)	(1,462)	(3,145)	-	**(8,235)**
Disposals during year	-	-	103	447	11	-	**561**
At 31 March 2009	**(14,714)**	**(480)**	**(6,028)**	**(13,736)**	**(16,387)**	-	**(51,345)**
NET BOOK VALUE							
At 31 March 2009	**22,160**	**3,321**	**5,982**	**7,588**	**35,808**	**10,647**	**85,506**
At 31 March 2008	23,957	3,681	3,551	8,225	38,903	5,774	**84,091**

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 2008	36,395	7,845	16,485	39,931	5,645	**106,301**
Additions during year	211	1,848	809	33	7,002	**9,903**
Disposals during year	-	(105)	(446)	(11)	-	**(562)**
Transfers during year	-	1,807	600	-	(2,407)	-
At 31 March 2009	**36,606**	**11,395**	**17,448**	**39,953**	**10,240**	**115,642**
DEPRECIATION						
At 1 April 2008	(12,581)	(4,865)	(12,494)	(12,944)	-	**(42,884)**
Provided during year	(2,037)	(1,092)	(800)	(2,219)	-	**(6,148)**
Disposals during year	-	103	355	11	-	**469**
At 31 March 2009	**(14,618)**	**(5,854)**	**(12,939)**	**(15,152)**	-	**(48,563)**
NET BOOK VALUE						
At 31 March 2009	**21,988**	**5,541**	**4,509**	**24,801**	**10,240**	**67,079**
At 31 March 2008	23,814	2,980	3,991	26,987	5,645	63,417

The net book value of freehold land and buildings includes £323,186 in respect of land (2008: £323,186).

12. INVESTMENTS

GROUP

	2009 £000	2008 £000
Joint venture (a)	**1,904**	1,980
Other fixed asset investments (b)	**283**	283
	2,187	2,263

(a) Joint venture – Inverness Airport Business Park Limited

	£000
At 1 April 2008	**(212)**
Share of loss retained by joint venture	**(77)**
At 31 March 2009	**(289)**

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: -

	2009 £000	2008 £000
Fixed assets	**1,466**	1,469
Current assets	**16**	14
Share of gross assets	**1,482**	1,483
Liabilities due within one year	**(319)**	(244)
Liabilities due after more than one year	**(1,121)**	(1,121)
Share of gross liabilities	**(1,440)**	(1,365)
Share of net assets	**42**	118
Redeemable shares of £1 each held by the group	**1,862**	1,862
Investment in joint venture	**1,904**	1,980

The summarised results of the joint venture company are as follows: -	2009 £000	2008 £000
Turnover	**-**	-
Loss before tax	**(261)**	(347)
Taxation	**36**	-
Loss after tax	**(225)**	(347)

(b) Other fixed asset investments

	£000
At 1 April 2008	**283**
Additions	**-**
At 31 March 2009	**283**

COMPANY

	Subsidiary Undertakings £000	Joint Ventures £000	Other Investments £000	Total £000
COST				
At 1 April 2008	397	2,562	283	3,242
Additions	-	-	-	-
At 31 March 2009	397	2,562	283	3,242
AMOUNTS PROVIDED				
At 1 April 2008 and 31 March 2009	50	-	-	50
NET BOOK VALUE				
At 31 March 2009	**347**	**2,562**	**283**	**3,192**
At 31 March 2008	347	2,562	283	3,192

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
Dundee Airport Limited	Ordinary shares	100%	Airport operations
Inverness Air Terminal Limited	Ordinary shares	100%	Dormant
Joint venture			
Inverness Airport Business Park Limited	Ordinary shares	34%	Property investment
	Redeemable shares	87%	

13. STOCKS

	Group 2009 £000	**Company 2009 £000**	Group 2008 £000	Company 2008 £000
Aviation fuel	**39**	**-**	52	-
	39	**-**	52	-

14. DEBTORS

	Group 2009 £000	**Company 2009 £000**	Group 2008 £000	Company 2008 £000
Trade debtors	**1,683**	**1,544**	1,397	1,249
Prepayments and accrued income	**1,028**	**983**	1,245	1,234
Amounts due from subsidiary undertaking	**-**	**218**	-	39
Amounts owed by joint venture	**249**	**249**	173	173
Corporation Tax	**10**	**10**	-	-
Other debtors	**586**	**492**	894	818
	3,556	**3,496**	3,709	3,513

15. CREDITORS: Amounts falling due within one year

	Group 2009 £000	**Company 2009 £000**	Group 2008 £000	Company 2008 £000
Trade creditors	**2,332**	**2,114**	609	597
Amounts owed to subsidiary undertaking	**-**	**347**	-	347
Other taxes and social security costs	**749**	**715**	1,529	1,494
Other creditors	**64**	**62**	97	93
Accruals and deferred income	**2,207**	**1,808**	3,487	2,774
	5,352	**5,046**	5,722	5,305

16. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Annual commitments under non-cancellable operating leases are as follows:-

	Group 2009 £000	**Company 2009 £000**	Group 2008 £000	Company 2008 £000
Equipment operating leases which expire:-				
In two to five years	**8**	**8**	-	-

17. PROVISIONS FOR LIABILITIES

	Group 2009 £000	**Company 2009 £000**	Group 2008 £000	Company 2008 £000
Deferred tax	-	-	-	-
	-	-	-	-
Movement on deferred tax				
At 1 April	-	-	-	-
Hive up transfer	-	-	-	-
Movement	-	-	-	-
At 31 March	-	-	-	-
Analysis of deferred tax balances				
- capital allowances in advance of depreciation	**50**	**51**	89	90
- timing differences relating to pensions	**95**	**94**	(89)	(90)
- trading losses	**(145)**	**(145)**	-	-
	-	-	-	-

A deferred tax asset has not been recognised in respect of timing differences related to historical trading losses incurred by the group amounting to £6.67 million, which will be recovered only if the group begins to make significant taxable profits.

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

The estimated value of the deferred tax asset not recognised, measured at the standard rate of 28% is £1,723,000 (2008: £1,786,000).

18. DEFERRED SUBSIDIES

	Group 2009 £000	**Company 2009 £000**	Group 2008 £000	Company 2008 £000
Balance at 1 April	**92,614**	**70,053**	62,762	60,115
Subsidies receivable	**9,517**	**9,214**	13,964	13,631
Purchase price adjustment	-	-	1,630	1,630
Fair value of Dundee Airport Limited's assets and liabilities	-	-	20,554	-
Released to profit and loss account	**(7,948)**	**(5,621)**	(6,280)	(5,307)
Released against asset disposals	**(550)**	**(25)**	(16)	(16)
Balance at 31 March	**93,633**	**73,621**	92,614	70,053

19. SHARE CAPITAL

	Group and Company			
	Authorised		Issued and fully paid	
	2009	2008	**2009**	2008
	No.	No.	**£000**	£000
Ordinary shares of £1 each	**50,000**	50,000	**50**	50

20. 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 2008	50	12,398	**12,448**
Retained loss for the year	-	(303)	**(303)**
Actuarial loss on pension scheme	-	(2,748)	**(2,748)**
At 31 March 2009	50	9,347	9,397

The cumulative amount of goodwill written off at 31 March 2009 is £21,738,000 (2008: £21,738,000).

COMPANY

	Share Capital £000	Profit and Loss account £000	Total £000
At 1 April 2008	50	12,315	**12,365**
Retained loss for the year	-	(251)	**(251)**
Actuarial loss on pension scheme	-	(2,623)	**(2,623)**
At 31 March 2009	50	9,441	9,491

21. PENSIONS

The group's employees are members of two final salary defined benefit pension schemes – the Highlands and Islands Airports Pension Scheme (HPS) and the Tayside Superannuation Fund (TSF). Group member numbers of each fund at 31 March 2009 were 408 (2008: 380) and 41 (2008: 38) respectively. Both schemes are operated in the UK and are funded by payment of contributions to separately administered trust funds.

The valuation used has been based on the most recent actuarial valuation as at 31 December 2007 for the HPS and as at 31 March 2008 for the TSF. The results of the valuations have been updated by Barnett Waddingham to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 March 2009 and 31 March 2008.

The assets and liabilities of the schemes at 31 March are:

Year ended 31 March 2009

	HPS	**TSF**	**Total**
	£000	**£000**	**£000**
Scheme assets at fair value			
Equities	**21,897**	**932**	**22,829**
Gilts	**5,283**	**166**	**5,449**
Other bonds	**12,824**	**123**	**12,947**
Property	**-**	**147**	**147**
Cash	**306**	**80**	**386**
Fair value of scheme assets	**40,310**	**1,448**	**41,758**
Present value of scheme liabilities	**(37,696)**	**(1,603)**	**(39,299)**
	2,614	**(155)**	**2,459**
Unrecognised past service cost	**-**	**-**	**-**
Defined benefit pension scheme asset/(deficit)	**2,614**	**(155)**	**2,459**

Year ended 31 March 2008

	HPS	TSF	Total
	£000	£000	£000
Scheme assets at fair value			
Equities	30,310	1,047	31,357
Gilts	5,100	194	5,294
Other bonds	13,100	74	13,174
Property	-	166	166
Cash	490	42	532
Fair value of scheme assets	49,000	1,523	50,523
Present value of scheme liabilities	(44,100)	(1,582)	(45,682)
	4,900	(59)	4,841
Unrecognised past service cost	-	-	-
Defined benefit pension scheme deficit	4,900	(59)	4,841

The pension plans have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

The amounts recognised in the Profit and Loss Account and in the Statement of Total Recognised Gains and Losses for the year are analysed as follows:

Year ended 31 March 2009	**HPS £000**	**TSF £000**	**Total £000**
Recognised in the Profit and Loss Account			
Current service cost	(2,655)	(160)	(2,815)
Past service cost	-	-	-
Recognised in arriving at operating profit	(2,655)	(160)	(2,815)
Expected return on scheme assets	3,513	109	3,622
Interest on obligation	(2,997)	(113)	(3,110)
Other finance costs	516	(4)	512
Total recognised in the Profit and Loss Account	(2,139)	(164)	(2,303)
Taken to the Statement of Total Recognised Gains and Losses			
Actual return on scheme assets	(11,398)	(359)	(11,757)
Less: expected return on scheme assets	(3,513)	(109)	(3,622)
	(14,911)	(468)	(15,379)
Other actuarial gains and losses	12,288	343	12,631
Actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses	(2,623)	(125)	(2,748)

Year ended 31 March 2008	HPS £000	TSF £000	Total £000
Recognised in the Profit and Loss Account			
Current service cost	(3,400)	(46)	(3,446)
Past service cost	-	-	-
Recognised in arriving at operating profit	(3,400)	(46)	(3,446)
Expected return on scheme assets	3,400	35	3,435
Interest on obligation	(2,700)	(41)	(2,741)
Other finance costs	700	(6)	694
Total recognised in the Profit and Loss Account	(2,700)	(52)	(2,752)
Taken to the Statement of Total Recognised Gains and Losses			
Actual return on scheme assets	(2,200)	(110)	(2,310)
Less: expected return on scheme assets	(3,400)	(35)	(3,435)
	(5,600)	(145)	(5,745)
Other actuarial gains and losses	10,500	569	11,069
Actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses	4,900	424	5,324

Pensions

Pension contributions are determined with the advice of independent qualified actuaries, Barnett Waddingham, on the basis of annual valuations using the projected unit credit method. The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for future earnings. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets.

Main Assumptions:

	HPS		TSF	
	2009	2008	**2009**	2008
	%	%	**%**	%
Rate of salary increases	**3.2**	3.7	**3.0**	3.7
Rate of increase in pensions in payment	**3.2**	3.7	**3.0**	3.7
Discount rate	**6.9**	6.6	**6.7**	6.6
Expected rates of return on scheme assets				
Equities	**7.5**	7.5	**6.8**	7.2
Gilts	**4.3**	5.2	**4.0**	4.4
Other bonds	**6.9**	6.2	**6.4**	6.0
Property	**-**	-	**6.4**	6.7
Cash	**3.0**	5.2	**3.0**	5.0
Inflation assumption	**3.2**	3.7	**3.0**	3.7
	Years	Years	**Years**	Years
Post-retirement mortality				
Current pensioners at 65 – male	**24.2**	24.1	**21.4**	21.4
Current pensioners at 65 – female	**27.6**	27.5	**24.4**	24.4
Future pensioners at 65 – male	**26.3**	26.2	**22.3**	22.3
Future pensioners at 65 – female	**29.8**	29.7	**25.3**	25.3

The discount rate is the yield on the Merrill Lynch Non Gilt Sterling AA Over 15 year Corporate Bond index with an adjustment of -0.2% in the TSF fund to reflect the duration of the liabilities relative to the duration of the index.

The expected rate of return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2008 for the year to 31 March 2009). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

For both schemes, the mortality rates are based on the PA92 tables but the assumptions used differ in how future improvements are allowed for.

For the TSF, the projection published with the PA92 tables is used to project improvements to 2008 for current pensioners and 2018 for non-pensioners but with an improvement of at least 1% per annum.

For the HPS, the "long cohort projection" is used, also with a minimum improvement of 1% per annum and the projection is made based on the average year of birth of each group of members. The long cohort projection assumes that members will live longer than the original projection used for the 92 tables.

The "current" disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date, with "future" being that relating to an employee retiring in 20 years time.

The results stated in the tables above are sensitive to the assumptions used. Changing the assumptions will have the following approximate effect on the HPS scheme liabilities (and hence the deficit at the end of the year assuming all else is equal):

Change in assumption

	Change mortality assumption to long cohort with minimum 1.5% improvement	*Reduce discount rate by 0.1%*
	£000	*£000*
Present value of defined benefit obligation	(38,506)	(38,659)
Scheme assets	40,310	40,310
Scheme Surplus	1,804	1,651

In respect of the Tayside Superannuation Fund scheme, the following table sets out the impact of a change in the discount rates on the total obligation and projected service cost, along with a +/- 1 year age rating adjustment to the mortality assumption:

Change in assumption	*+ 0.1%*	*- 0.1%*	*+ 1 year*	*- 1 year*
	£000	*£000*	*£000*	*£000*
Present value of defined benefit obligation	(1,562)	(1,645)	(1,546)	(1,660)
Projected service cost	143	154	141	156

The projected pension expense for the year ending 31 March 2010 is as follows:

	HPS	TSF	Total
	£000	£000	£000
Current service cost	2,061	148	2,209
Interest cost	2,669	116	2,785
Return on assets	(2,848)	(97)	(2,945)
Total	1,882	167	2,049

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2009

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	HPS	TSF	Total
	£000	£000	£000
As at 1 April 2007 (* 1 December 2007)	48,000	2,046*	50,046
Current service cost	3,400	46	3,446
Past service cost	-	-	-
Interest cost	2,700	41	2,741
Benefits paid	(200)	-	(200)
Contributions by scheme participants	700	18	718
Actuarial gains and losses	(10,500)	(569)	(11,069)
As at 31 March 2008 and 1 April 2008	44,100	1,582	45,682
Current service cost	2,655	160	2,815
Past service cost	-	-	-
Interest cost	2,997	113	3,110
Benefits paid net of transfer in	(487)	30	(457)
Contributions by scheme participants	719	61	780
Actuarial gains and losses	(12,288)	(343)	(12,631)
As at 31 March 2009	**37,696**	**1,603**	**39,299**

Changes in the fair value of plan assets are analysed as follows:

	HPS	TSF	Total
	£000	£000	£000
As at 1 April 2007 (*1 December 2007)	48,400	1,559*	49,959
Expected return on scheme assets	3,400	35	3,435
Employer contributions	2,300	56	2,356
Contributions by scheme participants	700	18	718
Benefits paid	(200)	-	(200)
Actuarial gains and losses	(5,600)	(145)	(5,745)
As at 31 March 2008 and 1 April 2008	49,000	1,523	50,523
Expected return on scheme assets	3,513	109	3,622
Employer contributions	2,476	193	2,669
Contributions by scheme participants	719	61	780
Benefits paid net of transfer in	(487)	30	(457)
Actuarial gains and losses	(14,911)	(468)	(15,379)
As at 31 March 2009	**40,310**	**1,448**	**41,758**

	2009	2008	2007	2006	2005
HPS	**£000**	£000	£000	£000	£000
Fair value of scheme assets	**40,310**	49,000	48,400	43,100	32,700
Present value of defined benefit obligation	**(37,696)**	(44,100)	(48,000)	(42,700)	(32,600)
Surplus/(deficit) in the scheme	**2,614**	4,900	400	400	100
Experience adjustments arising on plan liabilities	**(12,288)**	2,700	(300)	300	1,800
Experience adjustments arising on plan assets	**(14,911)**	(5,600)	(100)	5,500	1,900

TSF	2009 £000	2008 £000
Fair value of scheme assets	**1,448**	1,523
Present value of defined benefit obligation	**(1,603)**	(1,582)
(Deficit)/surplus in the scheme	**(155)**	(59)
Experience adjustments arising on plan liabilities	**-**	-
Experience adjustments arising on plan assets	**(468)**	**(145)**

22. CAPITAL COMMITMENTS

	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Contracted	**815**	**758**	2,582	2,582

23. RELATED PARTIES

a) During the year the group received subsidies totalling £26,828,000 from the Scottish Ministers.

b) During the year costs of £243,314 were incurred in relation to non-domestic rates and resurfacing the runway and income of £2,115 was receivable from Shetland Islands Council, by group companies, of which Charles A Goodlad's brother is the Chief Executive. At 31 March 2009 £60,809 was due to Shetland Islands Council from Highlands and Islands Airports Ltd. Charles A Goodlad has no financial interest in Shetland Islands Council.

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

24. CONTROLLING PARTY

The company's ultimate controlling party is the Scottish Ministers who own the entire share capital.

ECONOMIC REGULATION STATEMENT

FOR THE YEAR ENDED 31 MARCH 2009

Highlands and Islands Airports Limited is subject to economic regulation under the Airports Act 1986 which requires the group 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	13,050	
Subsidies	17,392	
	30,442	
Costs	(34,347)	(3,905)
Other Income		
Revenue	4,006	
Costs	(1,431)	2,575
NON-OPERATIONAL ACTIVITIES		
The group has no such activities under the Act		-
Group operating loss for the period		(1,330)

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

GROUP FIVE YEAR SUMMARY

RESULTS FOR THE YEARS ENDED 31 MARCH

	2009	2008 **	2007	2006	2005 (As restated)
	£000	£000	£000	£000	£000
PROFIT AND LOSS ACCOUNT					
Traffic operations and other income	**17,057**	15,174	13,635	11,913	10,826
Subsidies					
Total receivable	**26,909**	29,306	23,929	60,704	21,505
Capital carried to deferred income	**(9,517)**	(13,964)	(9,664)	(45,941)*	(4,101)
Revenue	**17,392**	15,342	14,265	14,763	17,404
less: net operating costs	**35,779**	32,223	29,784	28,655	29,555
Group operating (loss)	**(1,330)**	(1,707)	(1,884)	(1,979)	(1,325)
Share of joint venture	**(77)**	(118)	(59)	(37)	-
Profit/(loss) on disposal of fixed assets	**127**	9	1,431	1,155	(22)
Bank interest receivable	**449**	379	244	137	107
Other finance income	**512**	694	701	300	300
Interest payable and similar charges	-	-	-	(266)	-
Tax on (loss)/profit on ordinary activities	**16**	19	824	(279)	-
(Loss)/profit for the financial year attributable to members of the parent company	**(303)**	(724)	1,257	(969)	(940)
BALANCE SHEET					
Fixed assets	**90,036**	88,987	64,875	60,699	39,093
Net current assets	**10,535**	11,234	5,335	3,199	1,864
Provisions for liabilities	-	-	-	(579)	-
Accruals and deferred income	**(93,633)**	(92,614)	(62,762)	(58,128)	(35,797)
Defined benefit pension asset/(liability)	**2,459**	4,841	400	400	100
Net assets	**9,397**	12,448	7,848	5,591	5,260
Share capital	**50**	50	50	50	50
Profit and loss account	**9,347**	12,398	7,798	5,541	5,210
	9,397	12,448	7,848	5,591	5,260

* 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 2008 results include Dundee Airport Limited's trading results for the 4 months ended 31 March 2008.

	2009	2008 +	2007	2006	2005
STATISTICS					
Total passengers	**1,296,303**	1,283,409	1,232,782	1,152,895	1,015,657
Total aircraft movements	**141,586**	111,299	101,223	93,234	82,764

\+ The 2008 figures include 4 months of Dundee Airport's statistics

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 2009 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 24. 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.

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 6 complies with Scottish Government 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 2009 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

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

- 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
16 June 2009