

Highlands and Islands Airports Limited

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Registered No: SC97647

## Highlands and Islands Airports Limited

### Report and Financial Statements

31 March 2012

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## **Corporate information**

### **Directors**

Grenville Johnston OBE TD CA, Chairman  
Inglis Lyon, Managing director  
Michael Cantlay  
Andrew Castell  
David Savile  
Timothy Whittome

### **Company secretary**

Norman Ross CA

### **Registered office**

Head office  
Inverness airport  
Inverness  
IV2 7JB

### **Auditors**

Ernst & Young LLP  
Barony house  
Stoneyfield business park  
Stoneyfield  
Inverness  
IV2 7PA

### **Actuaries**

Barnett Waddingham LLP  
163 West George Street  
Glasgow  
G2 2JJ

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## Directors' report

The directors submit their report and the Group financial statements for the year ended 31 March 2012.

### Principal activity

The Group's principal activity during the year continued to be the provision and operation of safe, secure and efficient airports which support the communities we serve.

### Results and dividends

The Group's operating loss for the year amounted to £969,000 (2011: loss £2,555,000), which when compared with the prior year reflects reduction in winter related disruption, which has contributed to negative variances in revenues and operating costs.

The parent company loss after taxation amounted to £140,000 (2011: loss £2,339,000). The directors recommend that no dividend be paid, leaving the full amount to be retained within reserves.

### Review of the business

Subsidies from Scottish Government received for the year ended 31 March 2012 totalled £26,552,000 (2011: £25,256,000) made up of revenue of £18,096,000 (2011: £18,256,000) and capital of £8,700,000 (2011: £7,000,000).

Passenger numbers and aircraft movements across the Group increased by 8.7% and 9.3% respectively in the year. Excluding Dundee Airport these variance have increased by 10.1% and 8.0% respectively. Freight tonnage increased by 15%.

### 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 changes in the present nature of the business are not expected in the near future.

### Capital expenditure

Investment in property, plant and equipment amounted to £8,311,000. Major works undertaken included: -

- a) At Dundee, a runway, taxiway and apron rehabilitation project commenced at a cost of £1,029,000 in the year.
- b) At Inverness, a project commenced to replace and upgrade the aerodrome's ground lighting control system at a cost of £947,000.
- c) At Islay, the project continued to replace the aerodrome's ground lighting at a cost of £527,000. A runway delethalisation project commenced at a cost of £289,000.
- d) At Wick, the project continued to replace the aerodrome's ground lighting at a cost of £930,000. The runway was refurbished at a cost of £890,000 and the delethalisation of the runway strip commenced at £295,000.
- e) At Inverness, Kirkwall and Sumburgh £417,000 was spent on replacement voice communications control systems.

### 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 operating safe and secure airports.

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## Directors' report

### Air Navigation Service Provider (ANSP)

In accordance with EC Single European Sky legislation, HIAL is certificated and designated as an ANSP by the UK Civil Aviation Authority ("the regulator"). The following information for the year 2011/12 is provided in accordance with the reporting requirements set out in Commission Regulation (EC) No 2096/2005.

- **Inverness:**

The Thales Primary Surveillance Radar and Mode S Secondary Surveillance Radar, introduced in July 2008, continues to have a very positive impact on the environment in terms of fuel burn, track miles flown and noise footprint since its introduction.

In terms of mitigation in relation to sustainable energy projects, one major wind farm developer has made a significant financial input towards the cost of a technological mitigation against the effects of wind turbines on the Inverness radar. Whilst the technical mitigation has not yet been developed as a viable commercial proposition other alternatives are being pursued.

HIAL is engaged with the Department for Transport (DfT) with regard to the Radar Remediation consultation effected as a result of the DfT decision to sell off a part of the radio spectrum within which radar operates.

Inverness has also benefitted from the introduction of a new voice switch system to improve communications and the airport will also introduce replacement navigational aids for distance measuring equipment and direction finding.

- **Benbecula, Dundee, Kirkwall, Stornoway, Sumburgh and Wick:**

HIAL will continue to provide an air traffic control service to meet customer requirements. This includes providing on call facilities for lifeline services including air ambulance and search and rescue. We will investigate and evaluate approach control services with new surveillance technologies as they become available. National Air Traffic Services (NATS) continue to provide the radar approach service to Sumburgh Airport.

Kirkwall and Sumburgh Airports have benefitted from the installation of new voice switches, as with Inverness above, and Dundee Airport has seen the transfer of antennas and equipment from Tayside House to a more effective site close to the Tay Bridge, thereby enhancing communications.

Wick Airport has seen investment in new airport ground lighting and Kirkwall will see an upgrade to its airport ground lighting in the next financial year. In addition Benbecula, Kirkwall, Stornoway, Sumburgh and Wick will all see investment in new direction finding navigational aids and Kirkwall will also receive new distance measuring equipment.

- **Barra, Campbeltown, Islay and Tiree:**

HIAL will continue to provide a basic air traffic service (a flight information service) to meet the requirements of our customers.

HIAL has advised the regulator of its intention to engage in the development of GNSS (an instrument approach utilising satellite technology) approaches at group airports. This is particularly important at those airports whose main approach aid is a Very High Frequency Omni-directional Radio Range (VOR) since these navigation aids will be withdrawn from service over the next 5 to 15 years. This project is underway with three airports Barra, Campbeltown and Benbecula, included in Phase one due to complete in the 2012/13 financial year followed by the remaining airports in the following financial year.

The HIAL safety management system (SMS) continues to evolve under the auspices of continuous improvement and the business is regularly audited against the SMS. A procurement process commenced in 2011/12 for a quality management system with completion due in the next financial year.

Safety is assured and maintained by utilising the SMS to manage any proposed operational and organisational changes and to audit existing procedures. The revised system encompasses all aspects of the business and has embedded incident investigation requirements. Pending the procurement of a quality management system document control relating to safety, audit and risk management is managed through the use of a shared site on the company intranet.

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## Directors' report

### **Air Navigation Service Provider (ANSP) (continued)**

Key performance indicators are evolving and are available on request. An internal Compliance and Assurance programme consisting of phased auditing, in addition to any regulatory requirements, is in place. The Group continues to develop risk management procedures and processes. This is overseen by the Risk Oversight Group with a report presented to each Board Meeting.

The winter of 2011/12 was mild relative to previous years however the improvement process continued with participation in the CAA trial with regard to classification of contaminated runway surface conditions.

### **Supplier 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 2012 the Company had an average of 15 days' purchases owed to trade creditors (2011: 13 days).

### **Human resources**

At the year-end the Group employed 578 people, of which 19 were employed on a relief basis. This represents a small decrease on the previous year's total (584 inclusive of relief staff). Active management of staff levels and vacancies is a continuous process and this year has seen a moderate level of staff turnover through retirement, resignation, death in service and termination with 54 individuals leaving the Group. These changes resulted in opportunities for 56 internal staff changes. Over the course of the year the Group undertook 89 recruitment exercises, which is slightly fewer than last year and appears to be indicative of the current employment market.

Over the year, as part of our active management of staff levels, where posts have been vacated through natural turnover consideration has been given to leaving them vacant or removing them from the complement. In addition, where opportunities to do so have been identified, workloads have been reviewed and responsibilities amalgamated with other posts. However, overall staffing numbers have remained relatively stable.

Work is currently underway to streamline the recruitment process through digitisation of our application forms with the aim of making applying for jobs online a smoother process for candidates.

### **Organisational development**

This year has seen the Company continuing to focus on organisational development, aimed at achieving excellence through improved performance and decision-making. 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. We have introduced a Staff Newsletter to provide staff with an additional mechanism for communicating, recognising achievements, and spreading good news stories. To date three editions have been published with the fourth underway.

We remain Investors in People accredited, and work towards reaccreditation is on-going and remains a continuing priority. Following our last review we have developed an approach to non-financial reward.

This year the Company registered to participate in the Best Places to Work in the Not For Profit Sectors 2012 and Not For Profit Sectors Accreditation 2012 survey for the first time and a staff survey undertaken by 'Best Companies' was carried out with results published in January 2012. This has provided valuable information to enable future priorities to be identified in terms of employee engagement. In addition, the Company has also registered to work towards the bronze Healthy Working Lives award. An initial staff survey has been carried out with the project in the initial stages.

Corporate Social Responsibility has become an increasing area of focus for us with a great deal of work taking place around the company to ensure we give something back to our local communities. In recognition of this we were shortlisted for a CSR award at the Scottish Business Awards 2012.

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## Directors' report

### Employment policies

The HR team focused last year on the development of a framework of employment policies to ensure that we operate in a positive and supportive culture. This year we have begun a cyclical review of our policies to ensure that they continue to either meet or exceed statutory obligations, are user friendly and are in line with best practise. Our continuing aim is for our employment policies to ensure that equality of opportunity underpins all that we do and that through flexible working and family friendly policies we are able to balance our employees' needs with those of the Company.

We recognise three Trade Unions (PCS, Prospect and Unite). All staff are encouraged to be a member of the appropriate union. Joint management/Trades Unions meetings are held at least quarterly for each of the three trading companies with an annual meeting to cover matters affecting all companies.

### Training and development

Due to the specialist nature of many of our roles, training and development of our people continues to be an area of significant focus for us. We strive to achieve a culture of continuous improvement and achievement of excellence across the business, recognising that it is through our people that we achieve success.

We continue to provide a wide range of training opportunities to staff, including mandatory training for those in operational roles alongside training in people management skills. The HR team has run a rolling programme of management training over the year to ensure all our managers have the skills essential to their roles whilst operational training continued to be a high priority. This year has seen the development of a "Learning and Development Framework" which allows us to ensure that all staff have the skills and knowledge required for their roles.

We have completed work to allow us to become an Approved Training Provider of fire service courses with 5 new Fire Fighters undertaking the majority of their initial training in-house.

We are also in the process of increasing the utilisation of e-learning within the company with work underway towards the implementation of an electronic learning management system.

### Political and charitable donations

During the year, the Group made no political donations but made various charitable donations totalling £267 (2011: £435).

### 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 2012 were set at £26.6 million (including £17.9 million of revenue subsidy) and this was drawn down during the year. The operating subsidy provisions have been set at £22.9 million (including £17.9m of revenue subsidy) for the year ending 31 March 2013. This is considered by the directors to be adequate to sustain the Group as a going concern having considered the 12 months ahead from date of approval.

The Group has adequate financial resources, and continues to receive operating subsidies from Scottish Government for the continuation of operations at its 11 airports. The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

As a result of the IAS 19 pension liability the group has a net deficit of £3.493m and the company has a net deficit of £2.218m at 31 March 2012. This deficit results from bringing a long term pension liability onto the balance sheet and does not reflect the group or company's ability to continue as a going concern or to meet its liabilities as they fall due. Accordingly the group and the company continue to adopt the going concern basis in preparing their annual financial statements.

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## Directors' report

### Principal risks and uncertainties

The Group has an established risk committee, the Risk Oversight Group. 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 principal risks and uncertainties facing the Group are broadly grouped as liquidity, competitive, legislative and operational.

- **Liquidity risks**  
The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continually monitoring forecast and actual cash flows.
- **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.
- **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.
- **Operational risks**  
The Group manages operational risk through its safety management and risk management systems.

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 £22.9 million for the financial year 2012/13 and this may be amended due to operational circumstances and by agreement with the Scottish Government and the Group. 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

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

### Directors

The directors who served during the year to 31 March 2012 and subsequently are: -

Grenville Johnston	Chairman	
Inglis Lyon	Managing director	
Michael Cantlay	Director	
Andrew Castell	Director	
Alistair Goodlad	Director	- Resigned 29 February 2012
Linn Phipps	Director	- Resigned 29 February 2012
David Savile	Director	- Appointed 1 March 2012
Timothy Whittome	Director	- Appointed 1 March 2012

### 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 parent company also purchased and maintained throughout the financial year liability insurance for its directors.



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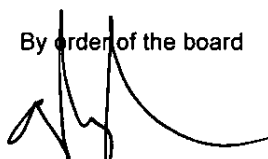
## Directors' report

### 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  
28 September 2012

## 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 designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of probity and secure effective accountability and good systems of internal control. As the company is a body sponsored by the Scottish Government, guidance contained 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 2012 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 and the senior management team who report to the boards of HIAL, DAL and AMSL (the Group).

### Risk management

The managing director and through him the Board is responsible for the overall risk management of the business however responsibility for specific risk management areas has been delegated to individual directors and managers.

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

- Identify new and emerging risks (including opportunities) facing the Group and its operations;
- Ensure significant risks are being effectively managed across the business by reviewing the Group risk register and updating as necessary, giving consideration to the Group's risk exposure;
- Coordinate cross functional activities to ensure effective, efficient controls are developed and maintained;
- Review the operation of internal controls within the Group and identify any gaps;
- Review the operation of risk and safety management activities within the Group 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.;
- 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 Group boards.

## Statement on internal control

### *Safety management systems*

The company's safety management system was updated during 2009 and is subject to ongoing review. It was implemented with a full training programme and provides a robust framework for the management of safety within the business. Each member of staff is encouraged to work within the framework and to work with the various management teams in improving the framework where it is necessary.

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 review by the board of actual results;
- A regular review of delegated financial authorities;
- A regular review of procurement procedures to ensure best value.

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.

Should the need arise, employees are encouraged to use the procedures within the Group's whistleblowing policy. The policy details the protection that will be given to employees who report malpractice at work.

### **Review of effectiveness**

As accountable officer I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by: -

- My work with the audit committee and through that the findings of both internal and external auditors.
- The senior managers within the company who have responsibility for the development and maintenance of the internal control framework;
- The senior managers within the company who have responsibility for the internal control framework in areas which could be impacted by external agencies;
- 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 six members. The non-executive chairman, the executive managing director and four non-executive directors, each of whom are appointed by Scottish Ministers. 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 strategy.

The management team, led by the managing director, monitors financial performance by a system of monthly financial reporting and review together with forward projections.

## Statement on internal control

### *Board committees*

During the year the audit committee was composed of three non-executive directors: Mr A Castell, Dr A Goodlad and Mrs L Phipps. Following the resignations of Dr A Goodlad and Mrs L Phipps on 29 February 2012, Dr M Cantlay and Mr T Whittome were appointed to the committee. The committee, chaired by Mr A Castell, works to terms of reference agreed by the board and meets on a regular basis. The managing director and the company secretary are 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, through internal audit, 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 and approved by the audit committee. 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.

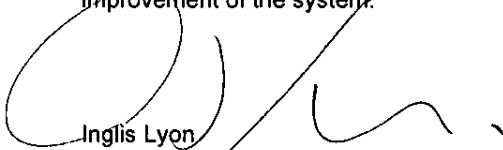
### *Operational control*

Each of the airports under the company's control is subject to regular operational inspections by the Civil Aviation Authority, as regulator, and by a series of internal audits to augment the regulatory framework.

### *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  
28 September 2012

## Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, International Accounting Standard 1 requires that the directors: -

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment on the Group's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

## **Independent auditors' report to the members of Highlands and Islands Airports Limited**

We have audited the financial statements of Highlands and Islands Airports Limited for the year ended 31 March 2012 which comprise the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, Group and company balance sheets, the Group statement of cash flows and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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**

As explained more fully in the Statement of directors' responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2012 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Independent auditors' report to the members of Highlands and Islands Airports Limited**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*Eunice McAdam*

Eunice McAdam (Senior statutory auditor)  
for and behalf of Ernst & Young LLP, Statutory Auditor  
Inverness  
28 September 2012

## Group income statement for the year ended 31 March 2012

	Notes	2012 £000s	2011 £000s
<b>Revenue</b>	<b>3</b>	<b>17,437</b>	<b>16,626</b>
Cost of sales		(33,493)	(34,072)
<b>Gross profit</b>		<b>(16,056)</b>	<b>(17,446)</b>
Administrative expenses		(3,254)	(3,354)
Other operating income		14	(9)
Other income	<b>4</b>	<b>18,341</b>	<b>18,247</b>
(Loss)/Profit on disposal of property, plant and equipment		(14)	7
<b>Operating (loss)</b>	<b>5</b>	<b>(969)</b>	<b>(2,555)</b>
Share of operating (loss) in joint venture	<b>11</b>	<b>(64)</b>	<b>(108)</b>
Finance revenue	<b>7</b>	<b>119</b>	<b>109</b>
Other finance revenue – pensions	<b>20</b>	<b>488</b>	<b>175</b>
<b>(Loss) from continuing operations before tax</b>		<b>(426)</b>	<b>(2,379)</b>
Tax credit	<b>8</b>	<b>291</b>	<b>54</b>
<b>(Loss) from continuing operations</b>		<b>(135)</b>	<b>(2,325)</b>

All activities relate to continuing operations.



## Group statement of comprehensive income for the year ended 31 March 2012

	Notes	2012 £000s	2011 £000s
(Loss) for the year		(135)	(2,325)
Other comprehensive income:			
Actuarial (losses) and gains	20	(5,248)	3,706
Tax on items relating to components of other comprehensive income		-	-
Other comprehensive income for the year, net of tax		<u>(5,248)</u>	<u>3,706</u>
Total comprehensive income for the year		<u>(5,383)</u>	<u>1,381</u>

## Company statement of comprehensive income for the year ended 31 March 2012

	Notes	2012 £000s	2011 £000s
(Loss) for the year		(140)	(2,339)
Other comprehensive income:			
Actuarial (losses) and gains	20	(5,066)	3,207
Tax on items relating to components of other comprehensive income		-	-
Other comprehensive income for the year, net of tax		<u>(5,066)</u>	<u>3,207</u>
Total comprehensive income for the year		<u>(5,206)</u>	<u>868</u>

## Group statement of changes in equity for the year ended 31 March 2012

	<i>Equity share capital £000s</i>	<i>Retained earnings £000s</i>	<i>Total equity £000s</i>
At 1 April 2011	50	1,840	1,890
(Loss) in year attributable to equity holders	-	(135)	(135)
Other comprehensive income	-	(5,248)	(5,248)
At 31 March 2012	<u>50</u>	<u>(3,543)</u>	<u>(3,493)</u>

## Company statement of changes in equity for the year ended 31 March 2012

	<i>Equity share capital £000s</i>	<i>Retained earnings £000s</i>	<i>Total equity £000s</i>
At 1 April 2011	50	2,938	2,988
(Loss) in year attributable to equity holders	-	(140)	(140)
Other comprehensive income	-	(5,066)	(5,066)
At 31 March 2012	<u>50</u>	<u>(2,268)</u>	<u>(2,218)</u>

# Highlands and Islands Airports Limited

Registered No: SC97647

## Group balance sheet for the year ended 31 March 2012

	Notes	2012 £000s	2011 £000s
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	80,579	79,423
Investment properties	10	1,137	1,235
Investments accounted for using the equity method	11	524	584
Intangible assets	12	1,588	1,891
Long term loan to joint venture	13	1,116	1,038
		<u>84,944</u>	<u>84,171</u>
<b>Current assets</b>			
Trade and other receivables	14	3,797	3,588
Inventories	15	60	56
Cash and cash equivalents	16	14,988	14,045
		<u>18,845</u>	<u>17,689</u>
<b>Total assets</b>		<u>103,789</u>	<u>101,860</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(6,130)	(5,090)
		<u>(6,130)</u>	<u>(5,090)</u>
<b>Non-current liabilities</b>			
Provisions for liabilities and charges	8(d)	-	(291)
Defined benefit pension scheme deficit	20	(8,039)	(2,740)
Deferred subsidies	18	(93,113)	(91,849)
		<u>(101,152)</u>	<u>(94,880)</u>
<b>Total liabilities</b>		<u>(107,282)</u>	<u>(99,970)</u>
<b>NET (LIABILITIES)/ASSETS</b>		<u>(3,493)</u>	<u>1,890</u>
<b>EQUITY</b>			
Ordinary shares	21	50	50
Retained earnings		(3,543)	1,840
		<u>(3,493)</u>	<u>1,890</u>



Grenville Johnston CA  
Chairman



Inglis Lyon  
Managing director  
28 September 2012

Registered No: SC97647

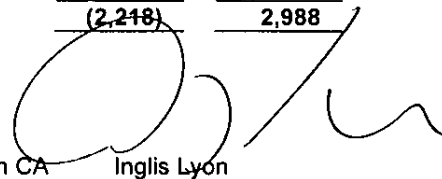
## Company balance sheet

for the year ended 31 March 2012

	Notes	2012 £000s	2011 £000s
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	65,217	64,298
Investment properties	10	907	999
Investments	11	2,331	2,325
Long term loan to joint venture	13	1,116	1,038
		<u>69,571</u>	<u>68,660</u>
<b>Current assets</b>			
Trade and other receivables	14	3,556	3,525
Inventories	15	17	-
Cash and cash equivalents	16	14,582	13,098
		<u>18,155</u>	<u>16,623</u>
<b>Total assets</b>		<u>87,726</u>	<u>85,283</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(5,799)	(5,867)
		<u>(5,799)</u>	<u>(5,867)</u>
<b>Non-current liabilities</b>			
Deferred tax liability	8(d)	-	(291)
Defined benefit pension scheme deficit	20	(7,665)	(2,405)
Deferred subsidies	18	(76,480)	(73,732)
		<u>(84,145)</u>	<u>(76,428)</u>
<b>Total liabilities</b>		<u>(89,944)</u>	<u>(82,295)</u>
<b>NET (LIABILITIES)/ASSETS</b>		<u>(2,218)</u>	<u>2,988</u>
<b>EQUITY</b>			
Ordinary shares	21	50	50
Retained earnings		(2,268)	2,938
		<u>(2,218)</u>	<u>2,988</u>



Grenville Johnston CA  
Chairman



Inglis Lyon  
Managing director  
28 September 2012

## Group cash flow statement for the year ended 31 March 2012

	Notes	2012 £000s	2011 £000s
<b>Cash flows from operating activities</b>			
Cash generated from operations	22	860	(1,308)
Purchase of property, plant and equipment		(8,745)	(3,992)
Proceeds from sale of property, plant and equipment		96	22
Receipt of capital subsidy		8,700	7,000
Tax paid		-	37
<b>Net cash flow from operating activities</b>		<b>909</b>	<b>1,759</b>
<b>Cash flows from investing activities</b>			
Purchase of investments		-	-
<b>Net cash flow from investing activities</b>		<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Interest paid		-	-
Interest received		32	29
<b>Net cash flow from financing activities</b>		<b>32</b>	<b>29</b>
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>943</b>	<b>1,788</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>14,988</b>	<b>14,045</b>

## Notes to the financial statements at 31 March 2012

### 1. Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of Highlands and Islands Airport Limited and its subsidiaries (the Group) for the year ended 31 March 2012 were authorised for issue by the board of directors on 28 September 2012 and the balance sheet was signed on the Board's behalf by Grenville Johnston and Inglis Lyon.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2012.

The principal accounting policies adopted by the Group are set out in note 2.

### 2. Accounting policies

#### 2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention. The consolidated financial statements are presented in Sterling and all values are rounded to the nearest thousand (£000) except where otherwise indicated. The Company is exempt from the requirement to file an individual profit and loss account under section 408 of the Companies Act 2006.

The Group receives subsidies from Scottish Government 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.

#### *Going concern*

The Group has adequate financial resources, and continues to receive operating subsidies from Scottish Government for the continuation of operations at its 11 airports. The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

As a result of the IAS 19 pension liability the group has a net deficit of £3.493m and the company has a net deficit of £2.218m at 31 March 2012. This deficit results from bringing a long term pension liability onto the balance sheet and does not reflect the group or company's ability to continue as a going concern or to meet its liabilities as they fall due. Accordingly the group and the company continue to adopt the going concern basis in preparing their annual financial statements.

#### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Highlands and Islands Airports Limited and its subsidiaries as at 31 March 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

#### 2.3 Significant accounting policies

##### *(a) Revenue recognition*

Revenue is recognised in accordance with IAS 18 *Revenue* and comprises amounts received and receivable in respect of airport services provided in the UK. Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

The principal revenue stream is airport charges which are recognised as the related service is provided. In addition, rental income is earned through leasing buildings and parts of buildings to various tenants and is recognised on a straight line basis over the rental period.

## Notes to the financial statements

### at 31 March 2012

#### 2.3 Significant accounting policies (continued)

##### *(b) Government grants*

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Government subsidies are received from Scottish Government in accordance with Section 34 of the Civil Aviation Act 1982 along with other revenue and capital grants. Government grants in respect of capital expenditure are credited to a deferred income account and are released as other income by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to other income so as to match them with the expenditure to which they relate.

##### *(c) Income taxes*

Current tax assets and liabilities are measured at the amount expected to be recovered or paid to the taxation authorities, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, income tax is recognised in the Income statement.

##### *(d) Pensions*

The Group operates the Highlands and Islands Airports Pension Scheme, a defined benefit scheme. Employees of Dundee Airport are members of the Tayside Superannuation Fund, another defined benefit scheme, which is operated by Dundee City Council. Tayside Superannuation Fund is a multi-employer pension scheme.

The cost of providing the benefits under the defined benefit plans is determined separately for each plan using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice.

The past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to a pension plan, past service costs are recognised immediately.

## Notes to the financial statements

### at 31 March 2012

#### 2.3 Significant accounting policies (continued)

##### (e) Pensions (continued)

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the Income statement as other finance revenue or cost.

The Group has applied the option in IAS 19 *Employee benefits* to recognise actuarial gains and losses in full in the statement of recognised income and expense in the period in which they occur.

The defined benefit surplus or deficit comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled.

##### (e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such costs include the cost of replacing part of the plant and equipment if the recognition criteria are met. Likewise when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognised in the Income statement as incurred.

Depreciation is provided on the cost less residual value of all property, plant and equipment, other than land, on a straight-line basis over its expected useful life as follows:

Freehold buildings	over 6 years to 60 years
Leasehold land and buildings	over the remaining life of the lease to a maximum of 50 years
Car parks	over 10 years to 45 years
Navigation aids	over 5 years to 20 years
Runways, aprons and main services	over 3 years to 50 years
Vehicles	over 5 years
Specialist airport vehicles	over 10 years to 20 years
Plant and IT equipment	over 3 years to 10 years
Furniture and fittings	over 3 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant or equipment is derecognised upon disposal or where no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the Income statement in the period of derecognition.



## Notes to the financial statements

### at 31 March 2012

#### 2.3 Significant accounting policies (continued)

##### *(f) Leasing*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement assessing whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

The classification of leases as finance or operating leases requires the Group to determine, based on an evaluation of the terms and conditions, whether it retains or acquires the significant risks and rewards or ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised on the balance sheet.

##### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the Income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the term.

Operating lease payments are recognised as an expense in the Income statement on a straight line basis over the lease term.

##### *Group as a lessor*

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

##### *(g) Business combinations*

The acquisition of subsidiaries is accounted for under IFRS 3 Business Combinations using the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition irrespective of the extent of any minority interest.

##### *(h) Goodwill*

Goodwill is initially measured at cost, being the excess of the cost of a business combination over the Group's share in the net fair value of the acquirees identifiable assets, liabilities and contingent liabilities.

If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income statement.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

Where goodwill forms part of a cash-generating unit and part of the operation of that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the portion of the cash generating unit retained.

## Notes to the financial statements

### at 31 March 2012

#### 2.3 Significant accounting policies (continued)

##### *(i) Investments in joint ventures*

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. The Group recognises its interest in joint ventures using the equity method. The Group presents its aggregate share of the profit or loss of joint ventures on the face of the Income statement and the investments are presented as non-current assets on the face of the Balance sheet.

##### *(j) Investment properties*

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in the Income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no further economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the Income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of the change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of the change in use.

##### *(k) Intangible assets*

Intangible assets acquired separately are initially measured at cost. Intangible assets acquired in a business combination are initially measured at cost being their fair values at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised over their finite useful economic life.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income statement in the expense category consistent with the function of the intangible asset.

##### *(l) Impairment of non-financial assets*

Many of the Group's non-financial assets, including goodwill, have been 100% funded by grants. In accordance with IAS 36 *Impairment of assets*, a grant recognised as deferred income that relates to a non-financial asset is deducted from the carrying amount of the asset for purposes of an impairment test for that asset. Therefore, no impairment testing of non-financial assets is required, where those assets have been funded by grants.

For those assets which have not been fully grant funded the Group assesses whether there are any indicators of impairment at each reporting date. Assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An asset or cash generating unit's recoverable amount is the higher of its fair value less costs to sell and its value in use.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

## Notes to the financial statements at 31 March 2012

### 2.3 Significant accounting policies (continued)

#### *(l) Impairment of non-financial assets (continued)*

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists the Group estimates the asset's or cash generating unit's recoverable amount. A previous impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior periods.

#### *(m) Cash and short term deposits*

Cash and short term deposits consist of cash at bank and in hand.

#### *(n) Provisions*

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

#### *(o) Inventories*

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

Net realisable value is based on an estimated selling price less any further costs expected to be incurred to completion and disposal.

#### *(p) Trade and other receivables*

Trade receivables, which generally have 30 day credit terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

#### *(q) Financial assets*

Financial assets, within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, evaluates this designation at each financial year-end.

When financial assets are recognised initially they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, being the date that the Group commits to purchase or sell the asset.

## Notes to the financial statements

### at 31 March 2012

#### 2.3 Significant accounting policies (continued)

##### *(q) Financial assets (continued)*

The subsequent measurement of financial assets depends on their classification. The Group have no financial assets at fair value through profit or loss, nor any held-to-maturity investments. The Group have trade receivables and the Group has made a long term loan to Inverness Airport Business Park Limited (IABP), the entity over which it has joint control. This constitutes a financial asset and is classified under Loans and receivables.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest (EIR) method if the time value of money is significant. Gains and losses are recognised in the Income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

##### *(r) Impairment of financial assets*

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. The Group has trade receivables and a long term receivable carried at amortised cost using the effective interest rate method. The assets are reviewed for impairment as follows:

##### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, through the use of an allowance account and the amount of the loss is recognised in administrative costs. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the Income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

#### 2.4 Judgements and key sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements, estimates and assumptions have had the most significant effect on amounts recognised in the consolidated financial statements:

##### *Revaluation of investment properties*

The Group carries its investment properties at fair value, with changes in fair value being recognised in the Income statement. The Group engaged independent valuation specialists to determine fair value as at 31 March 2012. For the investment properties the valuer used a valuation technique based on an adapted discounted cash flow model as there is a lack of comparable market data because of the nature of the property.

The determined fair value of the investment properties is most sensitive to the estimated yield. The key assumptions used to determine the fair value of the investment property are further explained in note 10.

## Notes to the financial statements

### at 31 March 2012

#### 2.4 Judgements and key sources of estimation uncertainty (continued)

##### *Defined benefit pension schemes*

The cost of the defined benefit pension schemes is determined using actuarial valuations. The actuarial valuations involved making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in note 20.

#### 2.5 Changes in accounting policy and disclosures

The following new, interpretations and amended standards have been adopted by the Group within these financial statements and the impact is described below.

##### **IAS 24**      *Related Party Disclosures (Amendment)*

The IASB issues an amendment to IAS 24 that clarifies the definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the group.

##### **IFRIC 14**      *Prepayments of a minimum funding requirement (Amendment)*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. There has been no impact on the financial position or performance of the group.

##### *Improvements to IFRS (issued in May 2010)*

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but no impact on the financial position or performance of the Group.

##### *IFRS 7 Financial Instruments – Disclosures:*

The amendment emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

##### *IAS 1 Presentation of Financial Statements:*

The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in Note 3.

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised 2008))*
- *IFRS 3 Business Combinations (Measurement of non-controlling interests)*
- *IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment) (effective 1 February 2010)*
- *IAS 34 Interim Financial Statements*

## Notes to the financial statements

at 31 March 2012

### 2.5 Changes in accounting policy and disclosures (continued)

#### *Improvements to IFRS (issued in May 2010) (continued)*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRIC 13 Customer Loyalty Programmes (determining the fair value of the award credits)*
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

### 2.6 New standards and interpretations not applied

The following new standards, interpretations and amendments have effective dates after the date of the financial statements and have not yet been implemented by the Group.

		<i>Effective for periods commencing</i>
IAS 1	<i>Financial statement presentation</i>	1 July 2012
IAS 12	<i>Income Taxes – recovery of underlying assets</i>	1 January 2012
IAS 19 (amendment)	<i>Employee benefits</i>	1 January 2013
IAS 27 (revised)	<i>Separate financial statements</i>	1 January 2013
IAS 28 (revised)	<i>Investments in associates and joint ventures</i>	1 January 2013
IFRS 7	<i>Financial instruments: Disclosures</i>	1 July 2011
IFRS 9	<i>Financial instruments: Recognition and measurement</i>	1 January 2013
IFRS 10	<i>Consolidated financial statements</i>	1 January 2013
IFRS 11	<i>Joint Arrangements</i>	1 January 2013
IFRS 12	<i>Disclosures with involvement with other entities</i>	1 January 2013
IFRS 13	<i>Fair value measurement</i>	1 January 2013
IFRS 7 & IAS 32	<i>Offsetting of financial instruments</i>	1 January 2014

The above standards and interpretations are expected to be adopted in accordance with their effective dates and have not been adopted in these financial statements. The directors do not anticipate that adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application.

### 3. Revenue

Revenue recognised in the Income statement is analysed as follows:

	<i>2012</i>	<i>2011</i>
	<i>£000s</i>	<i>£000s</i>
Revenue from airport charges	14,708	14,133
Concession revenues	1,578	1,265
Rental income	1,151	1,228
Total revenue	<u>17,437</u>	<u>16,626</u>

## Notes to the financial statements at 31 March 2012

### 4. Other income

	2012 £000s	2011 £000s
Government grants	18,341	18,247
	<u>18,341</u>	<u>18,247</u>

The Group receives an operating subsidy, which is receivable from Scottish Government, for the continuation of operations at its 11 airports. Dundee airport is operated through a subsidiary. The amount of the subsidy received in 2012 and 2011 were as follows:

		2012 £000s	2011 £000s
<b>Revenue</b>			
Scottish Government	Operating subsidy	17,900	18,100
Scottish Government	Air Discount Scheme	196	156
Scottish Enterprise	Route Development Fund	-	9
HIE/IEH	Marketing assistance	198	-
The Highland Council	Marketing assistance	17	-
HITRANS	Marketing assistance	29	-
Miscellaneous	Miscellaneous	-	(18)
		<u>18,341</u>	<u>18,247</u>
<b>Capital</b>			
Scottish Government	Operating subsidy	8,700	7,000
Dundee City Council	Reallocation of mast	20	-
		<u>8,720</u>	<u>7,000</u>
		<u>26,796</u>	<u>25,247</u>

### 5. Group operating (loss)

This is stated after charging / (crediting):

	2012 £000s	2011 £000s
(Decrease) in fair value of investment properties (note 10)	(98)	(9)
Depreciation of property, plant and equipment (note 9)	7,115	7,887
Amortisation of intangible assets (note 12)	303	303
	<u>7,418</u>	<u>8,190</u>
Deferred subsidies release (note 18)	(7,430)	(7,623)
Operating lease payments	46	43
Auditors remuneration – audit services	29	31
Auditors remuneration – technical advice	-	36
	<u>29</u>	<u>67</u>

## Notes to the financial statements at 31 March 2012

### 6. Employee benefit expense

	2012	2011
	£000s	£000s
Wages and salaries	17,153	16,870
Social security costs	1,425	1,369
Pension costs	3,404	1,998
Other staff costs	809	495
	<u>22,791</u>	<u>20,732</u>

The pension costs are in respect of defined benefit schemes.

The average monthly number of employees, including casuals, during the year was made up as follows:

	2012	2011
	No.	No.
Administration	51	55
Air traffic services	70	68
Airport fire service	196	198
Apron operations	9	10
Engineering	21	21
Management	37	36
Security	194	197
	<u>578</u>	<u>585</u>

### Directors' remuneration

	2012	2011
	£000s	£000s
Emoluments	168	194
Pension contributions	22	28

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

	2012	2011
	No.	No.
£0 to £5,000	2	-
£5,001 to £10,000	4	4
£15,001 to £20,000	-	1
£20,001 to £25,000	1	1
£145,001 to £150,000	1	1

The emoluments of the chairman were £21,880 (2011: £21,880) excluding pension contributions of £Nil (2011: £Nil) and of the highest paid director, Inglis Lyon, were £115,976 (2011: £122,246) excluding pension contributions of £22,303 (£23,914).

Mr Lyon was the only director for whom the Group made contributions during the year as a member of the Highlands and Islands Airports Pension Scheme.

### 7. Finance revenue

	2012	2011
	£000s	£000s
Bank interest receivable	32	30
Other finance income	87	79
	<u>119</u>	<u>109</u>



## Notes to the financial statements at 31 March 2012

### 8. Taxation

#### (a) Tax charged in the Income statement

	2012 £000s	2011 £000s
<b>Current income tax:</b>		
Current income tax charge / (credit)	-	-
Amounts overprovided in previous years	-	(27)
Total current income tax	-	(27)
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(269)	(4)
Effect of decreased tax rate on closing liability	(22)	(23)
Total deferred tax	(291)	(27)
<b>Tax expense in the Income statement</b>	<b>(291)</b>	<b>(54)</b>
<b>The tax credit in the Income statement is disclosed as follows:</b>		
Income tax credit on continuing operations	(291)	(54)

#### (b) Tax relating to items charged or credited to other comprehensive income

	2012 £000s	2011 £000s
Tax on defined benefit pension scheme	-	-
Total current income tax	-	-
<b>Deferred tax:</b>		
Deferred tax on defined benefit pension scheme	-	-
Total deferred tax	-	-
<b>Tax expense in statement of other comprehensive income</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements at 31 March 2012

### 8. Taxation (continued)

#### (c) Reconciliation of the total tax charge

The tax credit in the Income statement for the year is lower than the standard rate of corporation tax in the United Kingdom of 26% (2011: 28%). The differences are reconciled below:

	2012 £000s	2011 £000s
Accounting (loss) before income tax	(426)	(2,379)
Accounting (loss) multiplied by the UK standard rate of tax of 26% (2011: 28%)	(111)	(667)
Expenses not deductible for tax purposes	2	3
Tax losses carried forward	66	397
Government grants exempt from tax	(1,942)	(2,174)
Pension provisions not tax deductible	13	179
Adjustments in respect of prior periods IFRS	-	(38)
Adjustments in respect of prior periods	-	(27)
Interest on redeemable shares	(20)	(20)
Adjustment relating to sale of assets	4	(1)
Adjustment relating to tax on UK GAAP	(7)	1
Net depreciation in excess of capital allowances	1,978	2,292
Small companies tax relief	-	(3)
Share of JV not tax deductible	17	31
Deferred tax movement per note 8 (d)	(291)	(27)
<b>Total tax credit reported in the Income statement</b>	<b>(291)</b>	<b>(54)</b>

#### (d) Deferred tax

The deferred tax included in the Group balance sheet is as follows:

	2012 £000s	2011 £000s
<b>Deferred tax liability</b>		
Accelerated capital allowances	(3,223)	(4,442)
Revaluations of investment properties	(244)	(291)
	<b>(3,467)</b>	<b>(4,733)</b>
<b>Deferred tax asset</b>		
Pensions	1,840	625
Tax losses carried forward	1,987	2,105
Deferred revenue	3,148	3,378
Deferred tax not recognised	(3,508)	(1,666)
	<b>3,467</b>	<b>4,442</b>
<b>Disclosed on the Group balance sheet</b>		
Deferred tax (liability)	-	(291)

A deferred tax asset has not been recognised in respect of temporary differences related to historical trading losses incurred by the Group, 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 the financial statements.

## Notes to the financial statements at 31 March 2012

### 9. Property, plant and equipment

#### Group

	<i>Land and buildings freehold £000s</i>	<i>Plant and equipment £000s</i>	<i>Construction in progress £000s</i>	<i>Total £000s</i>
<b>Cost or valuation:</b>				
At 1 April 2011	42,321	100,888	1,970	145,179
Additions	159	6,636	1,516	8,311
Disposals	-	(593)	-	(593)
Transfers	84	2,919	(3,003)	-
At 31 March 2012	<b>42,564</b>	<b>109,850</b>	<b>483</b>	<b>152,897</b>
<b>Depreciation and impairment:</b>				
At 1 April 2011	(22,535)	(43,221)	-	(65,756)
Provided during the year	(1,735)	(5,380)	-	(7,115)
Disposals	-	553	-	553
At 31 March 2012	<b>(24,270)</b>	<b>(48,048)</b>	<b>-</b>	<b>(72,318)</b>
<b>Net book value:</b>				
At 31 March 2012	<b>18,294</b>	<b>61,802</b>	<b>483</b>	<b>80,579</b>
At 31 March 2011	<b>19,786</b>	<b>57,667</b>	<b>1,970</b>	<b>79,423</b>

#### Company

	<i>Land and buildings freehold £000s</i>	<i>Plant and equipment £000s</i>	<i>Construction in progress £000s</i>	<i>Total £000s</i>
<b>Cost or valuation:</b>				
At 1 April 2011	38,628	83,264	1,845	123,737
Additions	152	5,825	469	6,446
Disposals	-	(571)	-	(571)
Transfers	42	1,792	(1,834)	-
At 31 March 2012	<b>38,822</b>	<b>90,310</b>	<b>480</b>	<b>129,612</b>
<b>Depreciation and impairment:</b>				
At 1 April 2011	(20,822)	(38,617)	-	(59,439)
Provided during the year	(1,489)	(4,011)	-	(5,500)
Disposals	-	544	-	544
At 31 March 2012	<b>(22,311)</b>	<b>(42,084)</b>	<b>-</b>	<b>(64,395)</b>
<b>Net book value:</b>				
At 31 March 2012	<b>16,511</b>	<b>48,226</b>	<b>480</b>	<b>65,217</b>
At 31 March 2011	<b>17,806</b>	<b>44,647</b>	<b>1,845</b>	<b>64,298</b>

## Notes to the financial statements at 31 March 2012

### 10. Investment property

Investment properties are stated in the statement of financial position at fair value as shown below:

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2012</i>	<i>2012</i>	<i>2011</i>	<i>2011</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
Valuation at 1 April	1,235	999	1,244	998
Additions	-	-	-	-
Disposals	-	-	-	-
Fair value adjustment	(98)	(92)	(9)	1
Valuation as at 31 March	1,137	907	1,235	999

Fair value has been determined based on market valuations, in accordance with valuation standards published by the Royal Institution of Chartered Surveyors. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and not only relied on historical transactional comparables.

The valuations were performed by Jones Lang LaSalle as at 31 March 2012, an accredited independent with a recognised and relevant professional qualification and with recent experience in the location and category of investment properties being valued. The critical assumptions made relating to valuations are set out below:

	<i>2012</i>	<i>2011</i>
Yields (%)	8.5% - 12%	8.5% - 12%
Inflation rate (%)	n/a	n/a
Long term vacancy rate (%)	n/a	n/a
Long term growth in real rental rates (%)	0%	0%

### 11. Investments

#### *Group*

#### *(a) Investment in joint ventures*

Highlands and Islands Airports Limited owns 34% of the ordinary share capital and 87% of the redeemable shares in Inverness Airport Business Park Limited (IABP), a jointly controlled entity which is a property investment company. The Group accounts for its interest in IABP using the equity method.

## Notes to the financial statements at 31 March 2012

### 11. Investments (continued)

#### (a) Investment in joint ventures (continued)

The share of assets, liabilities, income and expenses of the jointly controlled entity at 31 March and for the years then ended are as follows:

	2012 £000s	2011 £000s
<b>Share of the joint venture's balance sheet:</b>		
Non-current assets	1,497	1,466
Current assets	15	18
Current liabilities	(56)	(47)
Non-current liabilities	(896)	(818)
Share of other reserves	(36)	(35)
<b>Share of net assets</b>	<b>524</b>	<b>584</b>
	2012 £000s	2011 £000s
<b>Share of the joint venture's results:</b>		
Revenue	-	-
Net operating expenses	(65)	(114)
Profit / (loss) before taxation	(65)	(114)
Tax expense	1	6
<b>Profit / (loss) after taxation</b>	<b>(64)</b>	<b>(108)</b>

The financial statements of IABP are prepared for the same reporting period as the Group financial statements.

#### (b) Details of Group undertakings

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital at 31 March 2011 and 2012 are as follows:

Name of company	Holding	Proportion of voting rights and shares held	Nature of business
<b>Subsidiary undertakings:</b>			
Airport Management Services Limited	Ordinary shares	100%	Airport services
Dundee Airport Limited	Ordinary shares	100%	Airport operations
Inverness Air Terminal Limited	Ordinary shares	100%	Dormant
HIAL Leaseco Limited	Ordinary shares	100%	Dormant
<b>Joint ventures:</b>			
Inverness Airport Business Park Limited	Ordinary shares	34%	Property investment
	Redeemable shares	87%	

## Notes to the financial statements at 31 March 2012

### 11. Investments (continued)

#### Company

	<i>Subsidiary undertakings £000s</i>	<i>Joint ventures £000s</i>	<i>Total £000s</i>
<b>Cost:</b>			
At 1 April 2011	407	1,968	2,375
Acquisitions	-	-	-
Additions	-	6	6
At 31 March 2012	407	1,974	2,381
<b>Depreciation and impairment:</b>			
At 1 April 2011	(50)	-	(50)
Amortisation during the year	-	-	-
Impairment charges	-	-	-
At 31 March 2012	(50)	-	(50)
<b>Net book value</b>			
At 31 March 2012	357	1,974	2,331
At 31 March 2011	357	1,968	2,325

### 12. Intangible fixed assets

	<i>Other intangibles £000s</i>	<i>Goodwill £000s</i>	<i>Total £000s</i>
<b>Cost:</b>			
At 1 April 2011	3,071	22,107	25,178
Acquisitions	-	-	-
Additions	-	-	-
At 31 March 2012	3,071	22,107	25,178
<b>Depreciation and impairment:</b>			
At 1 April 2011	(1,549)	(21,738)	(23,287)
Amortisation during the year	(303)	-	(303)
Impairment charges	-	-	-
At 31 March 2012	(1,852)	(21,738)	(23,590)
<b>Net book value</b>			
At 31 March 2012	1,219	369	1,588
At 31 March 2011	1,522	369	1,891

Other intangibles relate to a concession income separately identifiable as part of the acquisition of Inverness Air Terminal Limited and leasing contracts acquired as part of the acquisition of Dundee Airport Limited. Both intangible assets were grant funded. These assets were initially recorded at their fair values of £2,900,000 and £170,500 respectively and subsequently measured under the cost model. The assets are being amortised over the periods over which the contractual cash flows are expected to arise.

## Notes to the financial statements

### at 31 March 2012

#### 13. Loans to joint ventures

##### *Group*

	2012 £000s	2011 £000s
Loans to joint ventures	1,116	1,038
Total non-current financial assets	1,116	1,038

##### *Company*

	2012 £000s	2011 £000s
Loans to joint ventures	1,116	1,038
Total non-current financial assets	1,116	1,038

The loan above relates to two amounts loaned to IABP (the Group's joint venture investment) by Highlands and Islands Airports Limited. The first amount relates to funding provided to IABP for operational expenditure until IABP starts earning its revenue, which was stipulated under the shareholders' agreement. The second part relates to redeemable shares issued by the joint venture against a piece of land sold by HIAL to IABP. The redeemable shares are to be redeemed at IABP's discretion once they have the financial ability to do so. The funding will be repaid when the joint venture begins to earn revenue.

The loans are classified as loans and receivables, are interest free and are neither past due nor impaired.

## Notes to the financial statements at 31 March 2012

### 14. Trade and other receivables

#### Group

	2012 £000s	2011 £000s
Trade receivables	2,158	1,699
Less: provision for impairment of receivables	(71)	(108)
Trade receivables net of impairment	2,087	1,591
Receivables from joint ventures	166	138
Prepayments and other accrued income	1,190	1,733
Other receivables	354	126
	<b>3,797</b>	<b>3,588</b>

Out of the carrying amount of trade receivables of £2,087,000, £1,049,000 relates to 3 major customers.

Trade receivables are non-interest bearing and are generally on 30 days credit terms and are shown net of a provision for impairment. As at 31 March 2012, trade receivables at nominal value of £71,000 were determined to be impaired because of poor payment history or insolvency of the debtor and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2012 £000s	2011 £000s
At 1 April	(108)	(236)
Impairment losses recognised on trade receivables	(23)	(15)
Amounts written off as uncollectable	58	-
Receivables collected previously impaired	2	143
At 31 March	<b>(71)</b>	<b>(108)</b>

	2012 £000s	2011 £000s
Neither past due nor impaired	1,922	1,204
Past due but not impaired		
< 30 days	34	247
30 – 60 days	34	69
60 – 90 days	20	32
90 – 120 days	-	6
> 120 days	77	33
	<b>2,087</b>	<b>1,591</b>

As of 31 March 2012, trade receivables of £2,158,000 were considered for impairment and of which an amount of £71,000 was provided with the remaining amount expected to be fully recovered. The individually impaired trade receivables mainly relate to customers who are in difficult economic situations.

	2012 £000s	2011 £000s
Ageing of impaired trade receivables:		
Up to 3 months	-	-
Between 3 and 6 months	1	5
More than 6 months	70	103
At 31 March	<b>71</b>	<b>108</b>



## Notes to the financial statements at 31 March 2012

### 14. Trade and other receivables (continued)

#### Company

	2012 £000s	2011 £000s
Trade receivables	1,966	1,565
Less: provision for impairment of receivables	(68)	(106)
Trade receivables net of impairment	1,898	1,459
Receivables from subsidiaries	60	167
Receivables from joint ventures	166	138
Prepayments and other accrued income	1,061	1,677
Other receivables	371	84
	3,556	3,525

Out of the carrying amount of trade receivables of £1,898,000, £1,030,000 relates to 3 major customers.

Trade receivables are non-interest bearing and are generally on 30 days credit terms and are shown net of a provision for impairment. As at 31 March 2012, trade receivables at nominal value of £68,000 were determined to be impaired because of poor payment history or insolvency of the debtor and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2012 £000s	2011 £000s
At 1 April	(106)	(236)
Impairment losses recognised on trade receivables	(22)	(13)
Amounts written off as uncollectable	58	-
Receivables collected previously impaired	2	143
At 31 March	(68)	(106)
	2012 £000s	2011 £000s
Neither past due nor impaired	1,862	1,104
Past due but not impaired		
< 30 days	1	242
30 – 60 days	9	51
60 – 90 days	-	31
90 – 120 days	-	5
> 120 days	26	27
	1,898	1,460

As of 31 March 2012, trade receivables of £1,966,000 (2011: £1,565,000) were considered for impairment and of which an amount of £68,000 was provided with the remaining amount expected to be fully recovered. The individually impaired trade receivables mainly relate to customers who are in difficult economic situations.

	2012 £000s	2011 £000s
Ageing of impaired trade receivables:		
Up to 3 months	-	-
Between 3 and 6 months	1	-
More than 6 months	67	106
At 31 March	68	106

## Notes to the financial statements at 31 March 2012

### 15. Inventories

	<i>Group</i> <i>2012</i> <i>£000s</i>	<i>Company</i> <i>2012</i> <i>£000s</i>	<i>Group</i> <i>2011</i> <i>£000s</i>	<i>Company</i> <i>2011</i> <i>£000s</i>
Aviation fuel	43	-	56	-
Whisky shop stock	17	17	-	-
	<u>60</u>	<u>17</u>	<u>56</u>	<u>-</u>

### 16. Cash and cash equivalents

For the purposes of the Group statement of cash flows, cash and cash equivalents comprises the following:

#### *Group*

	<i>2012</i> <i>£000s</i>	<i>2011</i> <i>£000s</i>
Cash at bank	14,988	14,045
Short term deposits	-	-
	<u>14,988</u>	<u>14,045</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

#### *Company*

	<i>2012</i> <i>£000s</i>	<i>2011</i> <i>£000s</i>
Cash at bank	14,582	13,098
Short term deposits	-	-
	<u>14,582</u>	<u>13,098</u>

### 17. Trade and other payables

#### *Group*

	<i>2012</i> <i>£000s</i>	<i>2011</i> <i>£000s</i>
Trade payables	1,172	731
Other taxes and social security	503	347
Other payables	2,561	439
Deferred income	1,894	3,573
	<u>6,130</u>	<u>5,090</u>

#### *Company*

	<i>2012</i> <i>£000s</i>	<i>2011</i> <i>£000s</i>
Trade payables	1,059	633
Amounts owed to other Group companies	743	2,112
Other taxes and social security	329	312
Other payables	1,827	305
Deferred income	1,841	2,505
	<u>5,799</u>	<u>5,867</u>

## Notes to the financial statements at 31 March 2012

### 18. Deferred subsidies

#### Group

	2012	2011
	£000s	£000s
Balance at 1 April	91,849	92,472
Subsidies receivable	8,719	7,000
Release to Income statement	(7,430)	(7,623)
Release against asset disposals	(25)	-
Balance at 31 March	93,113	91,849

#### Company

	2012	2011
	£000s	£000s
Balance at 1 April	73,732	74,184
Subsidies receivable	8,310	5,298
Release to Income statement	(5,549)	(5,750)
Release against asset disposals	(13)	-
Balance at 31 March	76,480	73,732

### 19. Financial instruments

#### Credit risk

Credit risk is the risk of loss resulting from customer default arising on all credit exposures. The Group has established procedures to minimise the risk of default by its trade receivables including an established credit control function with the finance department.

There are no significant concentrations of credit risk within the Group unless otherwise disclosed. The maximum credit risk exposure related to financial assets is represented by the carrying value at the balance sheet date.

#### Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due owing to insufficient financial resources. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continually monitoring forecast and actual cash flows.

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2012 and 31 March 2011 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	£000s	£000s	£000s	£000s	£000s	£000s
<b>Trade and other payables</b>						
At 31 March 2012	-	6,130	-	-	-	6,130
At 31 March 2011	-	5,335	-	-	-	5,335

## Notes to the financial statements at 31 March 2012

### 19. Financial instruments (continued)

#### *Fair values of financial assets and financial liabilities*

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the financial statements:

	<i>Carrying amount</i>		<i>Fair value</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
<b>Financial assets</b>				
Loans and receivables	1,116	1,038	1,116	1,038
Trade and other receivables	3,816	3,451	3,816	3,451
Loans receivable	166	138	166	138
<b>Financial liabilities</b>				
Trade and other payables	6,130	5,335	6,130	5,335

The fair values of Loans and receivables and Loans receivable have been calculated by discounting the expected future cash flows at prevailing market interest rates for instruments with substantially the same terms and characteristics.

The carrying value of short term receivables and payables are assumed to approximate their fair value where the effects of discounting are not material.

### 20. 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 2012 were 445 (2011: 437) and 53 (2011: 53). Both schemes are operated and located in the United Kingdom and require contributions to be made to separately administered funds.

The values of the schemes obligations have been determined by a qualified actuary based on actuarial valuations as at 31 December 2010 for the HPS and 31 March 2011 for the TSF, both updated to the balance sheet date.

## Notes to the financial statements at 31 March 2012

### 20. Pensions (continued)

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

#### At 31 March 2012

	<i>HPS</i> <i>£000s</i>	<i>TSF</i> <i>£000s</i>	<i>Total</i> <i>£000s</i>
<i>Scheme assets at fair value</i>			
Equities	41,010	2,038	43,048
Gilts	7,905	240	8,145
Other bonds	21,317	330	21,647
Property	-	330	330
Cash	353	60	413
Fair value of scheme assets	70,585	2,998	73,583
Present value of scheme liabilities	(78,250)	(3,372)	(81,622)
Defined benefit pension scheme deficit	(7,665)	(374)	(8,039)

#### At 31 March 2011

	<i>HPS</i> <i>£000s</i>	<i>TSF</i> <i>£000s</i>	<i>Total</i> <i>£000s</i>
<i>Scheme assets at fair value</i>			
Equities	40,292	1,929	42,221
Gilts	6,605	188	6,793
Other bonds	18,495	268	18,763
Property	-	241	241
Cash	660	54	714
Fair value of scheme assets	66,052	2,680	68,732
Present value of scheme liabilities	(68,457)	(3,015)	(71,472)
Defined benefit pension scheme deficit	(2,405)	(335)	(2,740)

The amounts recognised in the Group income statement and in the Group statement of comprehensive income for the year are analysed as follows:

#### Year ended 31 March 2012

	<i>HPS</i> <i>£000s</i>	<i>TSF</i> <i>£000s</i>	<i>Total</i> <i>£000s</i>
<i>Recognised in Income statement</i>			
Current service cost	3,272	153	3,425
Past service cost	-	-	-
Recognised in arriving at operating loss	3,272	153	3,425
Expected return on scheme assets	(4,502)	(207)	(4,709)
Interest cost on obligations	4,088	133	4,221
Other finance (revenue)	(414)	(74)	(488)
<i>Taken to the Statement of comprehensive income</i>			
Actual return on scheme assets	2,243	11	2,254
Less: expected return on scheme assets	(4,502)	(207)	(4,709)
	(2,259)	(196)	(2,455)
Other actuarial (losses) and gains	(2,807)	13	(2,794)
Actuarial (losses) recognised in the Statement of comprehensive income	(5,066)	(183)	(5,249)

## Notes to the financial statements at 31 March 2012

### 20. Pensions (continued)

Year ended 31 March 2011

	HPS £000s	TSF £000s	Total £000s
Current service cost	3,584	314	3,898
Past service cost	-	(252)	(252)
Recognised in arriving at operating loss	3,584	62	3,646
Expected return on scheme assets	(4,095)	(176)	(4,271)
Interest cost on obligations	3,908	188	4,096
Other finance (revenue) / cost	(187)	12	(175)

#### Taken to the Statement of comprehensive income

Actual return on scheme assets	3,849	191	4,040
Less: expected return on scheme assets	(4,095)	(176)	(4,271)
	(246)	15	(231)
Other actuarial gains	3,453	484	3,937
Actuarial gains recognised in the Statement of comprehensive income	3,207	499	3,706

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

	HPS £000s	TSF £000s	Total £000s
Defined benefit obligation at 1 April 2011	68,457	3,015	71,472
Current service cost	3,268	153	3,421
Past service cost	-	-	-
Interest cost	4,088	133	4,221
Benefits paid	(1,141)	13	(1,128)
Contributions by scheme participants	771	77	848
Actuarial losses / (gains)	2,807	(19)	2,788
Defined benefit obligation at 31 March 2012	78,250	3,372	81,622

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

	HPS £000s	TSF £000s	Total £000s
Fair value of scheme assets at 1 April 2011	66,052	2,680	68,732
Expected return on scheme assets	4,502	207	4,709
Contributions by employer	2,660	222	2,882
Contributions by scheme participants	771	77	848
Benefits paid	(1,141)	13	(1,128)
Actuarial (losses)	(2,259)	(201)	(2,460)
Fair value of scheme assets at 31 March 2012	70,585	2,998	73,583

The Group expects to contribute £2,711,000 to its defined benefit pension plans in 2012/13.

## Notes to the financial statements at 31 March 2012

### 20. Pensions (continued)

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.

	HPS			TSF		
	2012	2011	2010	2012	2011	2010
	(%)	(%)	(%)	(%)	(%)	(%)
<i>Main assumptions:</i>						
Rate of salary increases	3.50	3.75	3.90	3.30	3.50	3.90
Rate of increase in pensions in payment	3.50	3.75	3.75	2.50	2.70	3.90
Discount rate	5.10	5.85	5.90	4.60	5.50	5.50
Expected rate of return on assets	6.20	6.70	6.72	6.10	7.30	7.40
RPI Inflation	3.50	3.75	3.90	3.30	3.50	3.90
Post-retirement mortality rate (in years)						
Current pensioners at 65 – Male	22.5	24.4	24.3	20.6	21.4	21.4
Current pensioners at 65 – Female	24.6	27.9	27.8	22.8	24.4	24.4
Future pensioners at 65 – Male	24.8	26.5	26.4	21.8	22.3	22.3
Future pensioners at 65 – Female	27.0	30.0	29.9	24.4	25.3	25.3

#### *Discount rate*

The discount rate on the HPS scheme is the yield on the Merrill Lynch Non gilts AA Over 15 year Index plus an adjustment of -0.44% to reflect the duration of the liabilities relative to the duration of the Index. The discount rate on the TSF scheme is the yield on the iBoxx AA rated over 15 year corporate bond index as at 31 March 2012.

#### *Expected rate of return on assets*

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 2011 for the year to 31 March 2012). 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.

#### *Mortality*

For both schemes, the mortality rates have been updated to be based on the most recent results of the actuarial valuations.

For the HPS, the S1PA table has been used making allowance for future improvements to be in line with the 2009 CMI projection model with a long term improvement rate of 1.5% per annum and the projection is made based on the individual year of birth of each member.

For the TSF, the S1PA table has been adjusted by 120% (to reflect the particular characteristics of the scheme) making allowance for future improvement to be in line with the 2011 CMI projection model with a long term improvement rate of 1% and the projection is made based on the individual year of birth of each member.

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.

## Notes to the financial statements at 31 March 2012

### 20. Pensions (continued)

#### Sensitivities

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 S1PA with CMI 2009 projection improvement by 1 year £000s	Reduce discount rate by 0.25% £000s	Increase inflation by 0.25% £000s
Fair value of scheme assets	70,585	70,585	70,585
Present value of defined benefit obligation	(79,925)	(83,390)	(83,370)
Defined benefit pension scheme deficit	(9,340)	(12,805)	(12,785)

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

Change in assumption	+ 0.1% £000s	- 0.1% £000s	+ 1 year £000s	- 1 year £000s
Present value of defined benefit obligation	3,252	3,497	3,246	3,500
Projected service cost	204	226	204	226

The projected pension expense for the year ending 31 March 2013 is as follows:

	HPS £000s	TSF £000s	Total £000s
Current service cost	3,850	215	4,065
Interest cost	4,080	162	4,242
Expected return on assets	(4,449)	(193)	(4,642)
Total	3,481	184	3,665

Amounts for the current and previous four periods are as follows:

	2012 £000s	2011 £000s	2010 £000s	2009 £000s	2008 £000s
<b>HPS</b>					
Fair value of scheme assets	70,585	66,052	59,641	40,310	49,000
Present value of defined benefit obligation	(78,250)	(68,457)	(64,470)	(37,696)	(44,100)
(Deficit) / surplus	(7,665)	(2,405)	(4,829)	2,614	4,900
Experience adjustment on plan liabilities	2,807	(3,453)	22,421	(12,288)	2,700
Experience adjustments on plan assets	(2,259)	(246)	14,210	(14,911)	(5,600)
	2012 £000s	2011 £000s	2010 £000s	2009 £000s	2008 £000s
<b>TSF</b>					
Defined benefit obligation	(3,372)	(3,015)	(3,261)	(1,603)	(1,582)
Plan assets	2,998	2,680	2,287	1,448	1,523
(Deficit)	(374)	(335)	(974)	(155)	(59)
Experience adjustment on plan liabilities	504	-	-	-	-
Experience adjustments on plan assets	(201)	15	460	(468)	(145)



## Notes to the financial statements at 31 March 2012

### 21. Share capital

	<i>Group and Company</i>	
	<b>2012</b>	<b>2011</b>
	<b>£000s</b>	<b>£000s</b>
Authorised shares	50	50
Allotted, called up and fully paid ordinary shares of £1 each	50	50

### 22. Cash generated from operations

	<b>2012</b>	<b>2011</b>
	<b>£000s</b>	<b>£000s</b>
Operating (loss)	(969)	(2,555)
Amortisation of intangibles	303	303
Depreciation of property, plant and equipment	7,116	7,887
(Increase) in inventories	(4)	(14)
(Increase) / decrease in trade and other receivables	(353)	2,734
Increase / (decrease) in trade and other payables	1,615	(2,860)
Movement in deferred subsidies	(7,428)	(7,623)
Fair value movement on investment properties	99	9
Difference between pension contributions and charges	539	818
Profit on disposal of property, plant and equipment	(58)	(7)
Cash generated from operations	860	(1,308)

### 23. Obligations under leases and hire purchase contracts

#### *Operating lease agreements where the Group is the lessee*

The Group has entered into commercial leases on certain property and items of machinery. These leases have an average duration of between 2 and 10 years. Only property lease agreements contain an option to extend, with such options exercisable six months before the expiry of the lease term.

Future minimum rentals payable under these non-cancellable operating leases are as follows:

	<b>2012</b>	<b>2011</b>
	<b>£000s</b>	<b>£000s</b>
Not later than one year	46	43
After one year but not more than 5 years	166	164
Later than 5 years	120	160
	332	367

## Notes to the financial statements at 31 March 2012

### 24. Related party disclosure

During the year the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 March with other related parties, are as follows:

		Sales to related party £000s	Purchases from related party £000s	Amounts owed by related party £000s	Amounts owed to related party £000s
<b>Related party</b>					
<u>Joint ventures:-</u>					
Inverness Airport Business Park Limited	2012	82	-	166	-
	2011	-	-	138	-
<u>In relation to key management personnel:-</u>					
Caledonian Air Surveys Ltd	2012	3	-	1	-
Director: T Whittome	2012	1	-	-	-
VisitScotland	2012	-	27	-	2

The Group has taken advantage of the exemption available in IAS 24 *Related party disclosures* paragraph 25 for government related entities in relation to related party transactions and outstanding balances, including commitments with Scottish Government (the ultimate controlling party of the Group). The significant transactions between the Group and Scottish Government are the subsidies, disclosed in note 4.

#### *Loans to related party*

		Amount owed by related party £000s
<u>Joint ventures</u>		
Inverness Airport Business Park Limited	2012	1,116
	2011	1,038

The loan made to IABP is not interest bearing. Further details are provided in note 13.

#### *Controlling party*

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

### 25. Capital commitments

At 31 March 2012, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £4,306,000 for the Group (2011: £3,055,000) and £4,237,000 for the Company (2011: £3,055,000).

### 26. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2011 and 31 March 2012.

The Group's capital structure consists of equity attributable to the equity holders of the parent, comprising share capital, reserves and retained earnings.

## **Economic Regulation Statement**

### **for the year ended 31 March 2012**

Highlands and Islands Airports Limited is subject to economic regulation under the Airports Act 1986 which requires it 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 an analysis of 1994/95 actual expenditure.

	<b>£000s</b>
<b>AIRPORT OPERATIONAL ACTIVITIES</b>	
Airport income	
Airport charges	14,708
Subsidies	18,341
Costs	<u>(35,277)</u>
	<u>(2,228)</u>
 <b>Other income</b>	
Revenue	2,729
Costs	<u>(1,470)</u>
	<u>1,259</u>
 <b>NON-OPERATIONAL ACTIVITIES</b>	
The Group has no such activities under the Act	<u>-</u>
 <b>Group operating loss for the year</b>	<u><b>(969)</b></u>

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 other than from Scottish Government subsidies.