

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

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HIGHLANDS AND ISLANDS AIRPORTS LIMITED

CONTENTS

Page

3	Corporate information
4	Who we are
5	Annual traffic statistics
6	Chairman's statement
7	Aithisg an Cathraiche
8	Managing director's statement
11	Aithisg A'Manaidsear-stiùiridh
15	Strategic report
18	Directors' report
19	Governance Statement
22	Statement of directors' responsibilities
23	Independent auditor's report
25	Group income statement
26	Group statement of comprehensive income
26	Company statement of comprehensive income
27	Group statement of changes in equity
27	Company statement of changes in equity
28	Group balance sheet
29	Company balance sheet
30	Group cash flow statement
31	Notes to the financial statements

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

CORPORATE INFORMATION

Directors

Michael Cantlay, OBE, BA, MBA, DUniv
Inglis Lyon, BSc (Hons) LLB
Gillian Bruton, BAcc, CA
Lorna Jack, MA, CA
David Savile
Timothy Whittome, BSc (Hons), AMIMechE, MRIN
James McLaughlan, Chartered MCIPD, MBA

Chairman
Managing Director
Finance Director

Company Secretary

Inglis Lyon

Registered Office

Head Office
Inverness Airport
Inverness
IV2 7JB

Registered in Scotland Number SC097647

Auditor

Scott Moncrieff
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Actuaries

Barnett Waddingham LLP
163 West George Street
Glasgow
G2 2JJ

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

WHO WE ARE

Highlands and Islands Airports Limited (HIAL) is a private limited company wholly owned by the Scottish Ministers and is responsible for the management and operation of 11 airports.

Our airports are located at: Barra, Benbecula, Campbeltown, Dundee, Inverness, Islay, Kirkwall, Stornoway, Sumburgh, Tiree and Wick.

Working with stakeholders, we are committed to supporting the essential socio-economic role of aviation in Scotland through the maintenance and development of our airports.

Our core activities are:

- Providing airports which meet regulatory standards and support essential transport connectivity.
- Maintaining and developing airport infrastructure and services.
- Working with airlines and stakeholders to maintain and develop scheduled, charter and freight air services.

Our mission:

To provide and operate safe, secure and efficient airports which support the communities we serve.

Our goal is to:

- Provide airports that enable air transport to fulfil its essential role in Scotland's diverse regions.
- Work with stakeholders to develop sustainable air connectivity that supports socio-economic development in Scotland.
- Advise the Scottish Ministers on future developments and resource allocation through robust strategic planning and effective collaboration with airport users and stakeholders.

Supporting Scotland's sustainable development

We work closely with our customers and stakeholders to ensure that our strategic goals support sustainable development within the communities we serve and are aligned with the policy objectives of the Scottish Government.

Wealthier and Fairer – our airports provide access to air transport connections which support sustainable economic growth and social inclusion.

Healthier – our airports facilitate access to healthcare services for remoter communities.

Safer and Stronger - air links enhance the attractiveness of the communities we serve as places in which to live, work and invest.

Smarter – air links provide access to education, employment, skills and resources which contribute to the socio-economic viability of more remote communities.

Greener – reducing the environmental impact of providing airports through resource efficiency contributes to a greener Scotland.

HIAL was incorporated in Edinburgh on 4 March 1986 as a private limited company. On 1 April 1995, ownership of the company transferred from the UK Civil Aviation Authority to the Secretary of State for Scotland and subsequently to the Scottish Ministers.

HIAL receives subsidies from the Scottish Government in accordance with section 34 of the Civil Aviation Act 1982, and is sponsored by Transport Scotland – Aviation, Maritime, Freight and Canals Directorate.

The 2016/17 HIAL Annual Report and Group Financial Statements have been submitted to the Scottish Ministers.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

ANNUAL TRAFFIC STATISTICS

For the year ended 31 March 2017

	Passengers			Movements		
	2016/17 No.	2015/16 No.	Variance No.	2016/17 No.	2015/16 No.	Variance No.
Barra	13,552	11,663	16.2%	1,352	1,180	14.6%
Benbecula	33,812	33,938	(0.4%)	3,578	3,566	0.3%
Campbeltown	8,809	9,142	(3.6%)	1,389	1,568	(11.4%)
Dundee	38,700	23,576	64.1%	35,945	38,473	(6.6%)
Inverness	829,018	671,103	23.5%	31,138	30,902	0.8%
Islay	32,355	29,884	8.3%	2,546	2,540	0.2%
Kirkwall	179,590	177,755	1.0%	14,429	14,355	0.5%
Stornoway	130,905	129,609	1.0%	10,694	11,088	(3.6%)
Sumburgh	355,667	312,061	14.0%	21,876	17,625	24.1%
Tiree	12,226	10,957	11.6%	1,893	1,672	13.2%
Wick	23,789	27,937	(14.8%)	4,270	4,390	(2.7%)
Total	<u>1,658,423</u>	<u>1,437,625</u>	15.4%	<u>129,110</u>	<u>127,359</u>	1.4%

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

CHAIRMAN'S STATEMENT

My first year in position as chairman of Highlands and Islands Airports Limited has witnessed another significant period for air travel, tourism and the local economy in the Highlands and Islands, as we continue to benefit from the success derived from improved connectivity and very encouraging visitor numbers.

In the 2016/17 financial year, the HIAL team welcomed more than **1.6 million** passengers through our 11 regional airports, the highest number to date.

Inverness Airport is better connected than ever and as a result of improved links with London Heathrow and Amsterdam, our passenger numbers have increased by **23.5%** compared to the previous year.

There have also been a number of significant progressive moves across the group: KLM committed to a second daily flight between the Highland capital and Amsterdam, Sumburgh Airport benefitted from a £7 million refurbishment and we celebrated the first anniversary of British Airway's flights to Heathrow from Inverness.

All of this is encouraging news, but we must all continue to work hard to ensure the entire Highlands and Islands region maximises the potential benefits from tourism and trade as technology promises ever greater connectivity.

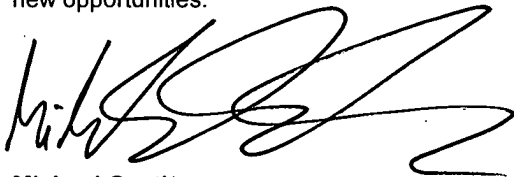
HIAL airports continue to play a strong role in Scottish tourism and with that in mind, another 2016/17 highlight was one of our smallest airports, Barra, celebrating its 80th anniversary. Scottish Government Minister for Transport and the Islands, Humza Yousaf MSP, joined the HIAL team and the entire island community for the day to celebrate this iconic, world-famous beach runway. A memorable occasion which perfectly illustrated why Scotland's global reputation as being a welcoming and friendly nation will stand us in good stead in the years ahead.

Flights from Glasgow to Barra, Islay and Tiree continue to benefit from strong tourist demand and saw increases in passenger numbers over the last 12 months.

Air links are vital to our future prosperity and by 2030 the transport landscape will have no doubt changed completely. Recently, we've seen 'unconventional' destinations such as Iceland and the Arctic Circle rising in popularity, along with the growth of budget airlines such as WOW air, which will certainly influence future travel trends.

Technology continues to move forward at a rapid pace and this will also have a profound effect on how we travel in the future. Self-navigation and electrification technologies across most forms of transport now appears "inevitable" rather than "improbable" and I look forward to seeing Scotland's transport network develop in the years to come.

Clearly, there are challenges and uncertainties ahead, not least as Brexit shapes how we engage and do business. However, here in one of the key growth areas of Scotland, we must remain focused, as well as open and adaptable to new opportunities.



Michael Cantlay
Chairman, HIAL

'S e àm cudromach airson siubhail adhair, turasachd agus an eaconamaidh ionadail sa Ghàidhealtachd sna h-Eileanan a bh' anns a' chiad bliadhna nam charaiche aig Puirt-adhair na Gàidhealtachd is nan Eilean Earranta, nuair a tha sinn a' buannachd bho soirbheachas comas-ceangail agus àireamhan luchd-siubhail gu math brosnachail.

Anns a' bhliadhna-ionmhais 2016/17, chuir sgioba HIAL fàilte air còrr air 1.6 millean luchd-siubhail tro ar 11 puirt-adhair roinneil, an àireamh as àirde a-riamh.

Tha Port-adhair Inbhir-Nis ceangailte nas fheàrr na bha i a-riamh seach gun deach adhartas a dhèanamh air ceangalan ri Heathrow Lunnainn agus Amsterdam, agus tha àireamh luchd-siubhail air èirigh 23.5% an coimeas ris a' bhliadhna roimhe.

Cuideachd, tha tòrr adhartas air tachairt tron bhuidheann: Gheall KLM ri turas-adhair dà thuras gach latha eadar prìomh baile na Gàidhealtachd is Amsterdam, fhuair Port-adhair Sumburgh buannachd bho ùrachadh £7 millean agus tha sinn a' moladh a' chiad ceann-bliadhna turais British Airways gu Heathrow bho Inbhir-Nis.

'S e naidheachd mhisneachail a th' ann an seo, ach feumaidh sinn leantainn oirnn a bhith ag obair cruaidh airson dèanamh cinnteach gum bi a' Ghàidhealtachd is na h-Eileanan a' fàs comas buannachaidh bho thurasachd agus malairt aig àm a tha teicneolas a' gealltainn an comas-ceangail as motha a-riamh.

Tha puirt-adhair HIAL a' leantainn orr' a bhith a' cluich pàirt làidir ann an turasachd na h-Alba agus le sin nar cuimhne, bha aon dhen puirt-adhair as lugha againn, Barraigh, a' comharrach cuimhneachan bliadhnail 80. Thàinig Ministear airson Còmhhdhalach agus nan Eilean, Humza Yousaf BPA, chun an eilein le sgioba HIAL agus a' choimhearsnachd air fad airson an raon-laighe ainmeil seo a chomharrachadh far a bheil am plèana a' cleachdadh na tràghad mar raon-laighe. 'S e latha as fhiach a chumail air chuimhne a bh' ann agus a' dealbhachadh dhuinn carson a tha cliù na h-Alba mar àite fàilteachais agus càirdeil, a' toirt seirbheis mhath dhuinn anns na bliadhnaichean a tha romhainn.

Tha turais-adhair bho Ghlaschu gu Barraigh, Ile agus Tiriodh a buannachadh bho iarratas làidir turasachd agus bha àrdachadh sna h-àireamhan luchd-siubhail thairis na 12 mìosan.

Tha ceangalan adhair deatamach gu ar soirbheachadh teachdail agus atharrachaidh dealbh-tìre còmhdhail gun teagamh air fad ro 2030. O chionn ghoirid, tha sinn air cinn-siubhail 'àraid' fhaicinn mar Innis Tìle agus Cearcall na h-Artaig a fàs nas coiteanta, cuideachd còmhla ri fàs companaidhean phlèanaichean buidseit mar WOW air, a bhios gu dearbh a' toirt buaidh air gluasad turasachd san t-àm ri teachd.

Tha teicneolas a' leantainn a bhith a' leasachadh aig ceum luath agus bheir seo buaidh trom air ciamar a tha sinn a' siubhal anns an t-àm ri teachd. Tha teicneolas fèin-mharaireachd agus dealanach thar a' mhòr chuid dhen còmhdhail a-nis a' coimhead "do-sheachanta" an taca ri "mi-choltach" agus tha mi a' coimhead air adhart ri faicinn lionra còmhdhail na h-Alba a leasachadh anns na bliadhnachan a tha romhainn.

Gun teagamh, tha dùbhlain agus neo-chinnt romhainn, gu h-àraid le Brexit a' dealbhachadh ciamar a bhios sinn a' dèanamh gnothachais. Ge-tà, an seo ann an àite cudromach fàs ann an Alba, feumaidh sinn fòcas a chumail, agus a bhith fosgailte agus freagarrach ri cothroman ùra.



Michael Cantlay
Cathraiche, HIAL

HIGHLANDS AND ISLANDS AIRPORTS LIMITED MANAGING DIRECTOR'S STATEMENT

Introduction

Connectivity remains key to the success of the Scottish as well as the Highland and Islands economy and for HIAL, it is at the forefront of everything we do.

Over the last year we witnessed significant improvements, with new and additional flights to some of Europe's busiest transport hubs, meaning the region is better connected by air than ever before.

However, it's not just about airports; the issue of connectivity spans far and wide. Roads, railways, public transport and digital infrastructure are all equally important in improving access to the region. If urbanisation is the key to economic growth in the South, accessibility through improved connectivity is our driver in the North.

Further development and improvement in connectivity for the Highlands is not only good for tourism, but crucial to attract new inward investment and enhanced business opportunities. Ultimately, better access will lead growth and help the region to prosper.

As we enter 2017 with various fiscal challenges and the political and economic uncertainties of Brexit, it's important that we continue to deliver improvements in connectivity for the region.

We'll do this by working more efficiently and collaboratively, using the region's best asset – our people.

Group operating performance

In recent years, we have placed additional emphasis on creating an even more efficient organisation, with a strong focus on reducing overheads. As a publicly owned company, everyone at HIAL is aware of the need to deliver positive results and exceptional value for money for the taxpayer.

In 2016/17 the HIAL group has an operating loss of £8,000, (2015/16, a loss of £3,382,000).

HIAL operates within a tight budgetary framework. This means we must continue to achieve economies of scale where possible, managing costs without compromising safety in any way. The organisation must continue to be innovative and adaptive, seeking new business opportunities wherever possible.

Passenger numbers

It has been another record year for passenger figures across the HIAL group, in 2016/17 more than **1.6 million** passengers travelled through our airports – an increase of **15.4%** on the previous year.

Highlights included a **23.5%** growth in numbers at Inverness Airport, a **14%** year-on-year increase at Sumburgh, **64%** additional customers at Dundee, and **16%** more passengers at Barra.

The Inverness figures reached **829,018** for the financial year, further illustrating the airport's popularity and increasingly important role as a driver for the Highland region and economy. In addition to growth as a result of the airport's Heathrow and Amsterdam Schiphol flights, all major routes from the city welcomed additional passengers.

Sumburgh Airport welcomed 355,667 passengers during the period with regular scheduled flights supporting the oil and gas sector and an increase in offshore traffic, while Dundee's numbers grew to 38,700 people using the airport, thanks to the Flybe link with Amsterdam Schiphol.

Strong tourist demand on flights from Glasgow to Barra, Islay and Tiree saw increases in passenger numbers at these important island airports, with Barra attracting **13,552** passengers in its 80th anniversary year.

Investment

Over the course of the year, HIAL has invested more than £16m to improve air services and the passenger experience for customers across Scotland.

In January 2017, we marked the official opening of the newly refurbished terminal at Sumburgh Airport on Shetland, with HIAL chairman Mike Cantlay, joined by Scottish Government Minister for Transport and the Islands, Humza Yousaf MSP, to celebrate the event. The airport is a key transport hub for offshore personnel and the investment of more than £6.3 million has helped to significantly improve the customer experience and provide an excellent platform for future growth.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

MANAGING DIRECTOR'S STATEMENT

Inverness Airport has also undertaken a series of improvements to the terminal and facilities, with £1.4m of investment to improve car parking, the arrivals area, departure lounge, retail outlets and catering offering. A dedicated international arrivals hall was also established, encompassing the border control function, to support the airport's increasing international links.

Safety

Safety remains our number one priority and HIAL works closely with the industry regulator, emergency services, local authorities and airline partners to ensure that our procedures are robust. We conduct regular emergency exercises to ensure the safety of passengers and crew in the unlikely event of an incident at one of our airports.

Our 'Memorandum of Understanding' with the Scottish Fire and Rescue Service (SFRS) was established in 2016 and means firefighters at HIAL airports across Barra, Islay and Tiree can be called on to assist SFRS crews dealing with breaking emergencies close to those airstrips. Firefighters share knowledge, skills and expertise, and can join forces during unforeseen and emergency situations, which can be a challenge in rural and remote communities.

In January 2017, new security procedures were introduced at Campbeltown, Barra and Tiree airports, which saw passengers travelling to Glasgow undergoing a new, streamlined check-in process at their departure airport. This decision followed an in-depth review of the security procedures at each of the airports operated by HIAL, by the Civil Aviation Authority (CAA) and the Department for Transport (DfT). These new measures have been designed to improve the general passenger experience for those travelling to Glasgow, whilst maintaining appropriate security standards.

Customer service

HIAL's personal approach to customer service is what sets us apart from many larger airports. Our customers are at the heart of operations and decision making and we realise that improving the customer journey is a key priority across the group.

At Inverness Airport we commissioned an airport user survey in early 2017, to obtain valuable feedback from passengers and business users, which will shape business plans and route development moving forward. With over 1,100 responses online and by post, the airport feedback process was deemed a success and we will now look towards implementing this across the network of airports.

For the 14th year, Inverness airport retained its Hospitality Assured status, as well as achieving the internationally recognised WorldHost accreditation. A record score for the assessment, carried out by the Institute of Hospitality, means the airport achieved 'world-class' status, pushing it into the top tier of accredited organisations.

Often, the simplest gesture goes a long way. As well as performing their operational duties, airport staff at our tourist hot spots on the Scottish Islands will happily take the time to provide advice and practical support for tourists in need of car hire, accommodation and information about visitor attractions.

Inverness Airport has once again been nominated as 'Airport of the year' in the Scottish Transport Awards.

Route development

In recent years HIAL has placed significant focus on developing new routes and the airports' offering improved significantly, with new routes to Amsterdam Schiphol, London Heathrow, Geneva, Norway's Bergen as well as a first flight from Inverness to Palma, Majorca.

These new links mean the airports are now better connected than ever. With Highland links to two of the world's busiest aviation hubs, passengers have quick and easy access to global transfers. The new routes have seen a high level of bookings to date, and British Airways reached the 75,000th passenger milestone in May 2017, coinciding with the first anniversary of the route.

Our international link between Dundee and Amsterdam was also deemed a success, with record numbers of passengers during the first few months. It was therefore a disappointment when the route was subsequently withdrawn, but we continue to work towards the future and hope that the route can be reinstated.

A key partner airline, Loganair announced it will take to the air in its own right once again in autumn 2017, after nearly quarter of a century flying under franchise arrangements with other airlines. The Glasgow-based company will once again market its services and fly under its own name – introducing a new, definitively Scottish identity to the skies.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

MANAGING DIRECTOR'S STATEMENT

In February 2017, Dutch national carrier KLM confirmed an increase in the frequency of its Inverness to Amsterdam service, from one to two per day. A new early morning departure time will improve access and onward connectivity, offering passengers even more options for worldwide travel. The double daily is a fantastic commitment from KLM to the region, and is a result of the strong passenger numbers to date.

Commenting on the recent route development, Scottish Government Minister for Transport and the Islands, Humza Yousaf, said: "New routes and improved connectivity are hugely important for islands communities and the Scottish Government is very supportive of the work being done by HIAL and their airline partners to grow passenger numbers. It is an exciting time for air travel in the Highlands and Islands and I am keen for the new routes to thrive."

Community

HIAL airports continue to provide vital transport links for remote communities in the Scottish Highlands and Islands, from Tiree, Shetland and Islay to Caithness and the Outer Hebrides. HIAL airports are regional hubs, supporting everything from oil and gas helicopter operations to mail delivery and lighthouse maintenance, as well as passenger transit.

However, it's not only air links we are looking to enhance in our regions. HIAL is looking to launch training courses delivered by our experienced safety personnel to help support local communities. Courses in first aid, first responder and emergency training are now available for individuals and community groups via our network of 11 airports across Scotland. This means that rather than having to travel hours for courses, people can get valuable qualifications and skills in their local area.

Corporate Social Responsibility is important to HIAL and in August 2016, a midnight runway run at Inverness Airport raised over £20,000 for CLIC Sargent. The event has been confirmed for 2017 with runners or walkers taking on a 5K circuit of the airport's runways and taxiways, this time raising funds for Maggie's Highlands centres. We also raised funds across the group, by taking part in Save the Children's Christmas Jumper day.

HIAL continues to support the Armed Forces Covenant, pledging flexibility for employees who serve as Reservists in the Armed Forces.

Our people

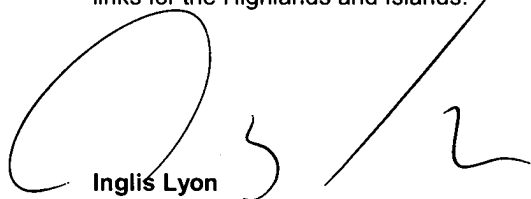
HIAL is a major employer in the Highlands and Islands, with a team of over 600 across our 11 airports and Inverness head office.

Our staff perform crucial roles from administration and finance, to IT, business development, human resources, air traffic control, fire service, security and customer service. We are committed to ensuring that our teams are trained to the highest standard and receive the support, encouragement and recognition that they deserve.

The future

Everyone at HIAL is mindful of the potential we have here in the Highlands and Islands to grow and develop air travel between communities. It is certain that demand will increase in coming years and there are challenges and opportunities in developing routes that can operate and serve the region, while at the same time proving viable and sustainable services.

This requires flexibility and imagination on tailoring services as to what best serves people's needs. We are constantly on the look-out for ways of developing cost-effective and efficient services that can create ever more air links for the Highlands and Islands.



Inglis Lyon
Managing Director, HIAL

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

AITHISG MANAIDSEAR-STIÙIRIDH PUIRT ADHAIR NA GÀIDHEALTACHD IS NAN EILEAN

Ro-ràdh

Tha comas-ceangail fhathast cudromach a thaobh soirbheachas eaconamaidh na h-Alba agus a' Ghàidhealtachd is na h-Eileanan agus aig HIAL, agus tha seo mu choinneamh a h-uile càil a tha sinn a' dèanamh.

Thar na bliadhna a chaidh seachad, tha sinn air leasachaidhean fhaicinn le siubhail-adhair as ùr gu feadhainn de na h-ionadan as trang san Roinn Eòrpa, a' ciallachadh gu bheil an roinn ceangailte nas fheàrr na bha i a-riamh.

Ge-tà tha a' cheist mu comas-ceangail fad is farsaing. Tha rathaidean, rathaidean-iarrainn, còmhaidh phoblach, agus bunstructair digiteach uile gu lèir cudromach airson leasachadh a dhèanamh air an t-slighe a-steach dhan roinn. Tha cathaireachadh cudromach airson fàs eaconamach san taobh a Deas, agus slighe a-steach tro comas-ceangail nas fheàrr, cudromach anns an taobh a Tuath.

Tha leasachadh agus adhartas a bharrachd a thaobh comas-ceangail sa Ghàidhealtachd math airson turasachd, ach cuideachd tha e deatamach airson in-shealbh agus cothroman gnothachais a bharrachd. Aig a' cheann thall, cuidichidh slighe a-steach fàs a thoirt air an roinn gus am bi i nas soirbheachail.

Seach gu bheil sinn a' tòiseachadh 2017 le dùbhlain ionmhasail agus neo-chinnteach poilitigeach is eaconamach mu Brexit, tha e cudromach gum bi sinn a' leantainn oirnn a' toirt seachad leasachadh a thaobh comas-ceangail airson na roinn.

Ni sinn seo le bhith ag obair nas èifeachdach agus le chèile, a' cleachdadh an so-mhaoin as fheàrr san roinn – ar daoine.

Dèanadas obrach na buidhne

Anns na bliadhnaichean a chaidh seachad, chuir sinn cuideam air buidheann èifeachdach a chruthachadh, le fòcas làidir air cosgaisean a lùghdachadh. Mar chompanaidh phort-adhar poblach tha HIAL mothachail gum feumar luach math airson airgead a thoirt seachad do luchd-pàigheadh nan cis.

Ann an 2016/17's e prothaid obrachaidh buidheann HIAL £8,000, (2015/16, call de £3,382,000).

Tha HIAL ag obair le buidseat teann. Tha seo a' ciallachadh gum feum sinn 'economies of scale' a choileanadh far am bith e comasach seo a dhèanamh, a' stiùireadh cosgaisean gun a bhith, ann an dòigh sam bith, a' toirt buaidh air sàbhailteas. Feumaidh sinn a bhith nua-thionnsgach agus co-fhreagrach, a' lorg cothroman airson gnìomhachais far am bheil e comasach.

Àireamh luchd-siubhail

Chlàr HIAL a' bhliadhna as fheàrr a riamh a thaobh àireamh luchd-siubhail, ann an 2016/17 shiubhal barrachd air 1.6 millean luchd-siubhail tro ar puirt-adhair – fàs de 15.4% air a' bhliadhna roimhe.

Thug seo a-steach fàs de 23.5% air àireamhan Phort Adhair Inbhir-Nis, suas 14% bhon uiridh aig Sumburgh, 64% luchd-siubhail a bharrachd aig Dùn Dè, agus 16% barrachd luchd-siubhal aig Barraigh.

Ruig figearan Inbhir-Nis 829,018 airson na bliadhna ionmhasail, a' sealltainn cho measail sa tha a' phort-adhair agus an dleastanas cudromach a th' aice a bhith a' gluasad air adhart eaconamaidh agus roinn a' Ghàidhealtachd. A bharrachd air fàs air sgàth turais-adhair Heathrow agus Amsterdam Schiphol, bha a h-uile prìomh slighe a' cur fàilte air barrachd 's a' chòrr luchd-siubhail.

Chuir Port-adhair Sumburgh fàilte air 355,667 luchd-siubhail sa bhliadhna le turais-siubhail cunbhalach a' cuideachadh roinn an t-ola is gas agus fàs ann an trafaig thall-thairis, agus dh' fhàs àireamhan gu 38,700 duine a' cleachdadh a' phort-adhair, taing do cheangal Flybe le Amsterdam Schiphol.

Bha tagradh luchd-siubhail làidir air turais bho Glaschu gu Barraigh, Ile agus Tìrìodh agus dh' fhàs àireamhan luchd-siubhail aig na puirt-adhair cudromach seo, le Barraigh a' tagradh 13,552 luchd-siubhail rè an 80mh bliadhna cuimhneachan.

Gu dearbh, bha fàs comasach aig ochd de 11 puirt-adhair na buidhne ann an Alba.

Bha àireamhan luchd-siubhail nas lugha aig Inbhir Uige Taigh Iain Ghròt (-14.8%), ann am pàirt seach gu robh iarratas nas lugha bho roinn na cumhachd gu-agus-bho Obar Dheathain, agus bha Cheann Loch Chille Chiarain (-3.6%) agus Beinn a' Bhaoghla (-0.4%) a' clàradh lughdachadh beag sna h-àireamhan.

Chlàr Puirt-adhair Baile na h-Eaglais agus Steòrnabhagh aon àireamh sa cheud figear fàs bliadhna-air-bliadhna fa leth.

Airgead-seilbh

Rè na bliadhna, chuir HIAL airgead-seilbh barrachd air £16m airson leasachaidh seirbheisean agus eòlas luchd-siubhail airson luchd-ceannachd air feadh na h-Alba.

Anns an Fhaoilleach 2017, chomharraich sinn fosgladh oifigeach aig togalach-uidhe ùir aig Port-adhair Sumburgh air Sealltainn, le cathraiche HIAL Mike Cantlay, agus còmhla ris, Ministear Rìghaltas na h-Alba airson Còmh-dhalach agus nan Eilean, Humza Yousaf BPA, airson an tachartais. 'S e ionad gu math cudromach a th' anns a' phort-adhair airson luchd-obrach ag obair thall thairis agus chuidich an airgead-tasgaidh £6.3 million leasachadh a thoirt air toileachas luchd-siubhail agus e a' toirt seachad àrd-ùrlar fìor-mhath airson fàs san t-àm ri teachd.

Chuir Port-adhair Inbhir-Nis cuideachd an gnìomh grunn leasachaidhean aig an togalach-uidhe agus goireasan le £1.4m airgead-tasgaidh airson adhartais a dhèanamh air a' phàirc-chàraichean, an àite-ruigsinn, an àite-fàgail, na h-àitean-bùth agus na h-àitean-bidhe. Chaidh talla-ruigsinn eadar-nàiseanta a stèidheachadh, a' toirt a-steach gnìomh-stiùir nam bòrdar, airson taic a thoirt do cheangalan eadar-nàiseanta a tha a' meudachadh.

Sàbhailteas

'S e sàbhailteas ar prìomh cheud chothrom agus tha HIAL ag obair le riaghladair na gnìomhachais, seirbheisean-èiginn, ùghdarrasan-ionadail com-pàirteachasan companaidhean-phlèanaichean airson dèanamh cinnteach gu bheil na dòighean sàbhailteas againn neartmhor. Bidh eacarsaich èiginn againn tric thar ar lionra gus dèanamh cinnteach gu bheil ar luchd-siubhail agus ar luchd-obrach sàbhailte ma bhios droch thubaist aig gin de na puirt-adhair.

Tha ar 'Meòrachan Tuigse' leis an t-Seirbheis-Smàlaidh is Teasairginn (SFRS) stèidhte ann an 2016, a' ciallachadh gun urrainn iarraidh air luchd-teine puirt-adhair HIAL ann am Barraigh, Ile agus Tìriodh, cuideachadh a thoirt dha luchd-obrach SFRS a tha an sàs ann an tubaistean faisg air na raon-laighean sin. Tha com-pàirteachais aig luchd-smàlaidh a thaobh eòlas, sgilean agus ealantas agus gheibh iad ceangal ri chèile nuair a tha suidheachadh ann gun fhios, a bhios uaireannan dùbhlach ann an coimhearsnachdan iomallach.

Anns am Faoilleach 2017 chaidh dòighean-dìon ùr a chur an aithne aig puirt-adhair Ceann Loch Chille Chiarain, Barraigh agus Tìriodh, agus chunnaic seo pròiseas seac a-steach ùr aig na puirt-adhair fàgail airson luchd-siubhal a bha a' dol a Ghlaschu. A leantainn air a' cho-dhùnadh seo, chaidh lèirmheas mion a dhèanamh air dòighean-dìon aig gach port-adhair HIAL, le *Ùghdarras Catharra* nam Plèanaichean (CAA) agus Roinn na Còmh-dhalach (DfT). Tha na dòighean ùra seo air an dealbhadh airson adhartas a thoirt air a' bhlas a gheibh luchd-ceannaich a' siubhal gu Glaschu, aig an t-àm a tha dlùth-leanachd air coitcheann dìon.

Seirbheis luchd-ceannaich

Tha dòigh-dlùthaich pearsanta HIAL a thaobh luchd-ceannaich air leth bho tòrr de na puirt-adhair as motha. Tha ar luchd-ceannaich aig cridhe a h-uile càil a bhios sinn a' dèanamh agus tha sinn ag aithneachadh gu bheil prìomh thoiseach againn thar a' bhuidheann ann a bhith a' leasachadh turais ar luchd-siubhail.

Aig Port-adhair Inbhir Nis, chuir sinn suirbhìdh neach-cleachdaidh air bhonn, tràth ann an 2017, gus am faigheadh sinn fios-air-ais luachmhor bho luchd-siubhail agus luchd-gnìomhachais, a bhiodh a' toirt cruth planaichean gnothachais agus leasachadh slighean a' dol air adhart. Le còrr air 1,100 freagairtean air-loidhne agus sa phost, bha a' phròiseas airson fios fhaighinn gu math soirbheachail agus a-nis, coimheadaidh sinn a dh' ionnsaigh seo a thoirt an sàs thar an lionra no nan puirt-adhair.

Airson an 14mh bliadhna, chum Port-adhair Inbhir Nis inbhe Hospitality Assured, agus cuideachd thug a' phort-adhair gu buil barantachadh WorldHost a tha air aithneachadh air feadh an t-saoghail. Thug an Institute of Hospitality seachad sgòr reacòrd airson measaidh, a' ciallachadh gun d' fhuair a' phort-adhair inbhe 'world-class', ga putadh gu àite àrd de bhuidheann le urram.

Gu trice, bidh gluasad simplidh a' dèanamh tòrr. A bharrachd air obair latha gu latha, tha luchd-obrach puirt-adhair aig àitean turasachd air eileanan Albannach, gu math toilichte comhairle agus taic practaigeach a thoirt seachad gu luchd-turais a bhios ag iarraidh càr fhadastad, àite-fuireach, agus fios mu dheidhinn àitean-tàlaidh dhaibh.

Chaidh Port-adhair Inbhir Nis a rithist ainmeachadh mar 'Port-adhair na Bliadhna' ann an Duaisean Còmh-dhail na h-Alba.

Leasachadh Slighean

Anns na bliadhnaichean a chaidh seachad, chuir HIAL fòcas air slighean ùra a' leasachadh agus chaidh adhartas mòr a dhèanamh an seo, le slighean ùra gu Amsterdam Schiphol, Lunnainn Heathrow, Geneva, Bergen ann an Nirribhidh, agus cuideachd a' chiad turas-adhar bho Inbhir Nis gu Palma, Majorca.

Tha na ceangalan ùra a' ciallachadh gu bheil na puirt-adhair air an ceangal ri chèile nas fheàrr na bha iad a riamh. Le ceangalan Gàidhealtachd gu an dà ionad as trang air an t-saoghail, tha luchd-siubhail a' faighinn cothrom furasta fhaighinn gu tar-aiseag saoghalach. Tha na slighean ùra air àireamh àrd fhacinn de thiocaidean gus an latha an-diugh, agus ruig British Airways clach-mìle leis an 75,000mh neach-siubhail anns a' Chèitean 2017, co-thuiteam leis a' chiad ceann-bliadhna den t-slighe.

Bha ceangal eadar-nàiseanta Dùn Dè agus Amsterdam cuideachd soirbheachail, le àireamhan reacòrd luchd-siubhail rè a' chiad dhà neo thri mhiosan. 'S e briseadh-dùil a bh' ann nuair a chaidh toirt as dhan an t-slighe, ach tha sinn a' leantainn oirnn a' dh' ionnsaigh an t-àm ri teachd agus tha sinn an dòchas gun urrainn dhan slighe a thighinn air ais.

Tòisichidh companaidh-phlèan com-pàirteachais, Loganair a-rithist na chòir fhèin anns an Fhoghair 2017, as dèidh cairteal linn a' sgeith bho òrdugh ceadachas margaideachd le companaidhean eile. A-rithist tòisichidh a' chompanaidh, stèidhte ann an Ghlaschu, margaideachd air na seirbheisean agus a' sgeith fo an t-ainm fhèin – a' cur an aithne fèineach ùr Albannach dhan adhair.

Sa Ghearran 2017, dhearbhadh companaidh Duitseach KLM àrdachas ann am bitheantas seirbheis Inbhir Nis gu Amsterdam, bho aon gu dhà gach latha. Leasaichidh uair ùr fàgail sa mhadainn ruigsinneachd agus tar-aiseag, a' toirt barrachd taghadh do luchd-siubhail airson siubhail air feadh an t-saoghail. 'S e dealas iongantach bho KLM dhan roinn a th' anns an dùblachadh gach latha, agus ri linn sin tha àireamhan làidir luchd-siubhail gus an latha an-diugh.

Thuir Ministear Riaghaltais na h-Alba airson Còmh-dhalach agus nan Eilean, Humza Yousaf BPA: "Tha slighean agus ceangalan ùra gu math cudromach airson coimhearsnachdan nan eilean agus tha Riaghaltas na h-Alba gu math toilichte leis an obair a tha HIAL agus am com-pàirteachas a' dèanamh airson àireamhan luchd-siubhail àrdachadh. 'S e àm spreòdach a th' ann airson siubhail-adhair sa Ghàidhealtachd is na h-Eileanan agus tha mi a' coimhead air adhart ri faicinn soirbheas 's na slighean ùra."

Coimhearsnachd

Tha puirt-adhair HIAL a' leantainn orra a bhith a' toirt seachad ceangalan deatamach gu coimhearsnachdan iomallach sa Ghàidhealtachd is na h-Eileanan ann an Alba, bho Tìrìodh, Sealtainn, agus Ile gu Gallaibh agus na h-Eileanan an Iar. 'S e ionadan roinneil a th'ann am puirt-adhair HIAL, a' toirt taic do dh'iomairtean heileacoptair ola is gas gu libhrigeadh post agus cumail suas taighean solais, agus a' siubhail dhaoine.

Ge tà, chan e a-mhàin ceangalan adhair a tha sinn ag iarraidh adhartachadh 's na roinnean. Tha HIAL a' dol a thòiseachadh air cùrsaichean trèanaidh le ar luchd-obrach eòlaichte air sàbhailteas airson coimhearsnachdan ionadail a chuideachadh. Tha cùrsaichean ciad-fhuasgladh, ciad-freagairt agus trèanadh èiginn a-nis ri fhaighinn airson daoine agus coimhearsnachdan thar ar lionra de 11 puirt-adhair air feadh Alba. Tha seo a' ciallachadh nach fheum daoine siubhail airson ùine fada airson cùrsaichean, agus gheibh iad barantas agus sgilean luachmhor 'sa choimhearsnachd aca fhèin.

Tha 'Corporate Social Responsibility' cudromach do HIAL agus anns an Lùnastal 2016, chruinnich Port Adhair Inbhir Nis còrr air £20,000 airson CLIC Sargent rè tachartas raon-laighe aig meadhan oidhche. Gabhaidh an tachartas àite a rithist ann an 2017 le ruitheadairean no luchd-coisich a' gabhail pàirt ann an 5K timcheall nan raon-laighe agus raon-tacsi, an turas seo, a' cruinneachadh airgid airson ionadan Maggie's Highlands. Chruinnich sinn airgead thar na buidhne cuideachd le bhith a' gabhail pàirt ann an Latha Geansaidh Save the Children.

Tha HIAL a' toirt taic gu an Armed Forces Covenant, a' gealltainn sùbailteachd airson luchd-obrach a' toirt seachad seirbheis mar 'Reservist' anns na Feachdan Armaichte.

Ar daoine

'S e prìomh fastaiche a tha ann HIAL sa Ghàidhealtachd is na h-Eileanan, le sgioba còrr air 600 luchd-obrach thar an 11 puirt-adhair agus aig ar prìomh oifis ann an Inbhir Nis.

Bidh iad ag obair ann an grunn dhreuchdan eadar-dhealaichte bho clèireachd agus ionmhais, gu IT, leasachadh gnothachais, goireasan daonna, stiùireadh trafaig-adhair, seirbheis smàlaidh, sàbhailteas is seirbheis luchd-ceannachd. Tha sinn dealasach airson dèanamh cinnteach gum faigh ar luchd-obrach trèanadh gu an ìre as àirde agus gum faigh iad misneachadh agus an aithne air a bheil iad àiridh.

Àm ri teachd

Tha a h-uile duine aig HIAL ag aithneachadh cho comasach sa tha sinn ann an seo sa Ghàidhealtachd is na h-Eileanan airson fàs agus leasachadh a thoirt air siubhail-adhair eadar coimhearsnachdan. Gu dearbha, fàsaidh an iarratas seo 's an t-àm ri teachd agus tha dùbhlain is cothroman ann an leasachadh slighean san roinn, aig an t-aon àm a' toirt seachad seirbheisean comasach is seasmhachd.

Tha feum air sùbailteachd agus mac-meanmna ann a bhith ag atharrachadh seirbheisean freagarrach airson iarratas dhaoine. Innsidh mi dhuibh gu bheil sinn an còmhnaidh a' coimhead a-mach airson dòighean ùra seirbheisean a leasachadh a tha èifeachdach 's a tha a' cruthachadh barrachd ceangal adhair don Ghàidhealtachd is do na h-Eileanan.



Inglis Lyon
Manaidsear Stiùiridh HIAL

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

STRATEGIC REPORT

The directors submit their Strategic Report and the Group financial statements for the year ended 31 March 2017.

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

As a publicly funded company, HIAL is acutely aware that it must manage its resources responsibly and efficiently. Given the pressure on public sector budgets, this is a significant challenge, particularly in many of our smaller, more remote airports, where passenger numbers are low and fixed costs remain relatively high.

The underlying performance of the company showed continued success in reducing the cost of sales and delivering value for money for the taxpayer.

The parent company profit after taxation amounted to £136,000 (2016: loss £4,508,000). The directors recommend that no dividend be paid.

Review of the business

Subsidies from Scottish Government received for the year ended 31 March 2017 totalled £36,451,000 (2016: £38,020,000) made up of revenue of £20,164,000 (2016: £19,900,000) and capital of £16,287,000 (2016: £18,120,000).

Passenger numbers across the Group increased by 15.4% and aircraft movements increased by 1.4%. Excluding Dundee Airport these variances have increased by 14.5% and an increase of 4.8% respectively. Freight tonnage increased by 6.6%.

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.

Principal risks and uncertainties

The Group has an established Risk Oversight Group. The managing director, senior managers and appropriate line managers are responsible for the effective management of risk within the group 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, business, 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.
- **Business 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, costs and connectivity for the regions we serve.
- **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 and the CAA. 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 a budget of up to £20,164,000 for the financial year 2016/17 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 on page 17, this is considered by the directors to be adequate to sustain the Group as a going concern.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

STRATEGIC REPORT

Key performance indicators

The Board consider the following to be key performance indicators:-

Supplier payment policy and practice

It is group policy that payments to suppliers are made in accordance with terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 March 2017 the group had an average of 24 days' purchases owed to trade creditors (2016: 20 days).

Capital expenditure

Investment in property, plant and equipment amounted to £16.4m. Major works undertaken included:

- a) Runway 13/31 rehabilitation at Wick for £5.6m
- b) At Sumburgh a total of £4.6m on the refurbishment of the terminal and other ancillary buildings.
- c) 5 Fire appliances at a cost of £1.7m as part of the on going fleet replacement programme.
- d) Terminal building expansion of £446k at Inverness.

Safety and security

The Group is committed to operating safe and secure airports, whilst effectively managing associated risks in accordance with the HIAL Safety Management System.

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 2016/17 is provided in accordance with the reporting requirements set out in Commission Regulation (EC) No 2096/2005.

At corporate level, HIAL is a key contributor and participant in a number of significant initiatives in respect of developing air navigation services including the CAA's Low Density Low Complexity Airspace (LDLCA) study into future proofing navigation aids for airspace users out to 2030. HIAL, with funding from the Future Airspace Strategy (FAS), has promoted and is trialling at Dundee, an R&D project using emerging technology as an achievable and cost effective way of enhancing safety and efficiency in uncontrolled airspace through improved controller situational awareness.

ATM Strategy 2030 is HIAL's mid to long term Air Traffic Management (ATM) strategy. Whilst enhancing safety this strategy will see the company transition to a more sustainable, more cost effective, and more environmentally friendly Airspace environment. The Air Traffic Service (ATS) model will meet with the Company's operational and business needs and satisfy stakeholder expectations post 2020.

Inverness:

Inverness Airport continues with an Airspace Change Proposal to introduce controlled airspace at Inverness Airport in pursuit of economic and environmental improvements.

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

HIAL will continue to provide an air traffic control (ATC) 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 centralised approach control services with new surveillance and remote tower technologies as they become available (see ATM Strategy above). National Air Traffic Services (NATS) continue to provide the radar approach service to Sumburgh Airport. Benbecula, Stornoway and Wick airports completed improvements to their voice communications systems in 2016/17. Benbecula and Stornoway are expected to replace Meteorological Equipment in 2017/18, with the remaining ATC Units following in 2018-20.

Barra, Campbeltown, Islay and Tiree:

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

HIAL engaged with the European initiative regarding the introduction of Global Navigation Satellite Systems and submitted satellite procedures for all 11 airports to the CAA. All 4 systems are operational at AFIS Airports with the ATC Airports following through 2017/18.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

STRATEGIC REPORT

Human resources

Active management of staffing levels to balance our requirement to meet regulatory staffing levels with budgetary efficiency is an ongoing priority for the organisation. This year has seen a small decrease in headcount, from 622 to 617. This also equates to a reduction in FTE from 572.3 to 557.8. This is as a result of a drive to make efficiency savings wherever possible and enhanced scrutiny of vacancies to establish if needs can be met without filling vacant posts.

The number of staff employed on a relief basis with minimal guaranteed hours, but without any exclusivity clause, has also decreased slightly from 4% to 3.6%. Use of these contracts remain subject to continual review to ensure those that wish to have more guaranteed hours have the opportunity to do so. However, we find that a proportion of our staff choose contracts of this nature due to the flexibility and convenience it offers them.

Turnover of staff remained highest within the Security function last year, at 14.86% compared to 6.09% in HIAL and 2.38% in DAL. However, it is anticipated that we will see a reduction this year following the work that has gone into aligning their terms and conditions with those of the other companies. This has been a significant piece of work which has been implemented over the last year. Initial signs are that turnover is reducing and we expect that to continue.

Recruitment remains a high area of focus, with over 80 vacancies processed over the year. A number of these have been promotions and transfers, but a significant proportion is the filling of security vacancies that arise. The majority of leavers from the company were again resignations (44 of 56).

We further developed our online recruitment system over the last year, with the introduction of offer and on-boarding functions to our online candidate management system. This enables us to streamline the offer process for our new recruits and speeds up their access to information on their terms, conditions and benefits. Feedback from candidates on our system has been positive and as the technology develops we will continue to make enhancements.

Employment policies

We have a framework of employment policies designed to ensure that we operate in a positive and supportive culture. We continue to review these on a cyclical basis to ensure they remain legislatively compliant and in line with best practice. A number of policies have been reviewed this year, in consultation with our 3 recognised Trade Unions.

A large review of our attendance management policy was undertaken through a joint company and TU working group. This was part of an increased drive to ensure absence is managed effectively, absence levels are reduced and employees are appropriately supported to facilitate a return to work as soon as possible. A regular case review panel has been set up with reviews taking place to give increased support and coaching to managers in this area.

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 core operating subsidy budget for the year to 31 March 2017 was set at up to £39 million (including up to £18.9 million of revenue subsidy) and this was drawn down during the year. The operating subsidy budget has been set at up to £36.1 million (including up to £19.6m of revenue subsidy) for the year ending 31 March 2018. 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 of the financial statements.

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 £27.763m (2016: £22.776m) and the company has a net deficit of £24.275m (2016: £21.433m) at 31 March 2017. 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.

By order of the board

Inglis Lyon
Company Secretary
22 August 2017

HIGHLANDS AND ISLANDS AIRPORTS LIMITED DIRECTORS' REPORT

The directors submit their report and the group financial statements for the year ended 31 March 2017.

Directors

The directors who served during the year to 31 March 2017 and subsequently are:-

Michael Cantlay, OBE, BA, MBA, DUniv	Chairman	Appointed 1 July 2016
Grenville Johnston OBE, TD, CA	Chairman	Resigned 30 June 2016
Inglis Lyon, BSc (Hons) LLB	Managing Director	
Gillian Bruton, BAcc, CA	Finance Director	
Lorna Jack, MA, CA	Director	
James McLaughlin, Chartered MCIPD, MBA	Director	
David Savile	Director	
Timothy Whittome, BSc (Hons), AMIMechE, MRIN	Director	

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.

Auditor

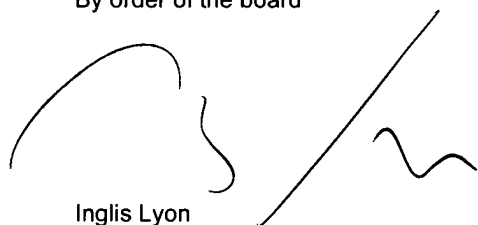
Scott Moncrieff will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Directors' statement as to disclosure of information to the auditor

The directors who were members of the board at the time of approving the Directors' report are listed above. Having made enquiries of fellow Directors and of the Group's auditor, 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 auditor is 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 auditor is aware of that information.

By order of the board



Inglis Lyon
Company Secretary
22 August 2017

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

GOVERNANCE STATEMENT

Scope of responsibility

As accountable officer I have responsibility for maintaining a system of internal control that supports the achievement of the group'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 group 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 group'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 group'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 2017 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 group 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 have 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.

Safety management systems

The system 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. We ensure currency through regular training using internal and external providers.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

GOVERNANCE STATEMENT

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 group who have responsibility for the development and maintenance of the internal control framework;
- The senior managers within the group 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 group, taking into account the Scottish Ministers' expressed policy to encourage economic and social development in the Highlands and Islands.

The Board is composed of seven members. The non-executive chairman, the executive managing director, the executive finance director and four non-executive directors, each of whose appointments are approved 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.

Board committees

During the year the audit committee was composed of three non-executive directors: Mr T Whittome, Ms L Jack and Mr J McLaughlin. The committee, chaired by Ms L Jack, works to terms of reference agreed by the board and meets on a regular basis. The managing director and the finance director 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

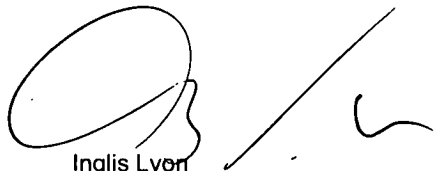
Each of the airports under the group's control is subject to regular operational inspections by the Civil Aviation Authority, as regulator, and by a series of internal audits to augment the regulatory framework.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED GOVERNANCE STATEMENT

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.

A handwritten signature in black ink, consisting of a large, stylized 'I' followed by a horizontal line and a small flourish.

Inglis Lyon
Managing Director
22 August 2017

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with 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 and applicable law. 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 the directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable international accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The Directors are responsible for keeping 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.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

INDEPENDENT AUDITOR'S 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 2017 which comprise the Group Income Statement, the Group and Company Statement of Comprehensive Income, the Group and Company Statement of Changes in Equity, Group and Company Balance Sheets, the Group Statement of Cash Flows and the related notes. 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 the Directors and the auditor

As explained more fully in the Statement of directors' responsibilities set out on page 22, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2017 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 in accordance with the provisions of the Companies Act 2006; and the group 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 Chairman's Statement, the Managing Director's Statement, the Strategic Report, the Director's Report and in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements, and the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

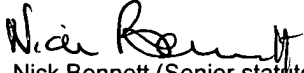
HIGHLANDS AND ISLANDS AIRPORTS LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIGHLANDS AND ISLANDS AIRPORTS LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report

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.



Nick Bennett (Senior statutory auditor)

for and on behalf of Scott Moncrieff, Statutory Auditor

Exchange Place 3

Semple Street

Edinburgh

EH3 8BL

22 August 2017

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 £000	2016 £000
Revenue	3	22,018	20,588
Cost of sales		<u>(38,876)</u>	<u>(40,747)</u>
Gross loss		<u>(16,858)</u>	<u>(20,159)</u>
Administrative expenses		(9,633)	(3,902)
Other income	4	26,522	20,592
Other (losses)/gains	6	<u>(39)</u>	<u>87</u>
Operating loss	5	<u>(8)</u>	<u>(3,382)</u>
Share of operating (loss)/gain in joint venture	12	(116)	24
Finance revenue	8	139	156
Other finance cost – pensions	22	<u>(1,000)</u>	<u>(1,085)</u>
Loss from continuing operations before tax		<u>(985)</u>	<u>(4,287)</u>
Tax charge	9	<u>-</u>	<u>-</u>
Loss from continuing operations		<u><u>(985)</u></u>	<u><u>(4,287)</u></u>

All activities relate to continuing operations.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 £000	2016 £000
(Loss) for the year		(985)	(4,287)
Other comprehensive income:			
Actuarial (losses)/gains	22	(3,145)	6,522
Tax on items relating to components of other comprehensive income		-	-
Other comprehensive (expense)/income for the year, net of tax		<u>(3,145)</u>	<u>6,522</u>
Total comprehensive (expense)/income for the year		<u>(4,130)</u>	<u>2,235</u>

COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 £000	2016 £000
Profit/(loss) for the year		136	(4,508)
Other comprehensive income:			
Actuarial (losses)/gains	22	(1,100)	5,847
Tax on items relating to components of other comprehensive income		-	-
Other comprehensive (expense)/income for the year, net of tax		<u>(1,100)</u>	<u>5,847</u>
Total comprehensive (expense)/income for the year		<u>(964)</u>	<u>1,339</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

	Equity share capital	Retained Earnings	Total Equity
	£000	£000	£000
At 1 April 2015	50	(26,065)	(26,015)
Loss in year attributable to equity holders	-	(4,287)	(4,287)
Other comprehensive income	-	6,522	6,522
At 31 March 2016	50	(23,830)	(23,780)

	Equity share capital	Retained Earnings	Total Equity
	£000	£000	£000
At 1 April 2016	50	(23,830)	(23,780)
Loss in year attributable to equity holders	-	(985)	(985)
Other comprehensive (expense)	-	(3,145)	(3,145)
At 31 March 2017	50	(27,960)	(27,910)

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

	Equity share capital	Retained Earnings	Total Equity
	£000	£000	£000
At 1 April 2015	50	(22,493)	(22,443)
(Loss) in year attributable to equity holders	-	(4,508)	(4,508)
Other comprehensive income	-	5,847	5,847
At 31 March 2016	50	(21,154)	(21,104)

	Equity share capital	Retained Earnings	Total Equity
	£000	£000	£000
At 1 April 2016	50	(21,154)	(21,104)
Profit in year attributable to equity holders	-	136	136
Other comprehensive (expense)	-	(1,100)	(1,100)
At 31 March 2017	50	(22,118)	(22,068)

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP BALANCE SHEET
AS AT 31 MARCH 2017

	Notes	2017 £000	2016 £000
ASSETS			
Non-current assets			
Property, plant and equipment	10	113,677	105,663
Investment properties	11	1,099	1,237
Investments accounted for using the equity method	12	130	246
Intangible assets	13	55	67
Long term loan to joint venture	14	1,608	1,495
		<u>116,569</u>	<u>108,708</u>
Current assets			
Trade and other receivables	15	3,866	4,149
Inventories	16	44	40
Cash and cash equivalents	17	3,145	2,471
		<u>7,055</u>	<u>6,660</u>
Total assets		<u>123,624</u>	<u>115,368</u>
LIABILITIES			
Current liabilities			
Trade and other payables	18	(8,587)	(9,537)
		<u>(8,587)</u>	<u>(9,537)</u>
Non-current liabilities			
Loan	19	(519)	-
Deferred tax liability	9(d)	-	-
Defined benefit pension scheme deficit	22	(27,763)	(22,776)
Deferred subsidies	20	(114,665)	(106,835)
		<u>(142,947)</u>	<u>(129,611)</u>
Total liabilities		<u>(151,534)</u>	<u>(139,148)</u>
		<u>(27,910)</u>	<u>(23,780)</u>
EQUITY			
Ordinary shares	23	50	50
Retained Earnings		<u>(27,960)</u>	<u>(23,830)</u>
		<u>(27,910)</u>	<u>(23,780)</u>

The financial statements were authorised for issue by the Board of Directors on 22 August 2017 and signed on its behalf by:



Michael Cantlay, OBE
Chairman



Inglis Lyon
Managing Director
22 August 2017

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
COMPANY BALANCE SHEET
AS AT 31 MARCH 2017

	Notes	2017 £000	2016 £000
ASSETS			
Non-current assets			
Property, plant and equipment	10	103,490	94,728
Investment properties	11	1,099	1,127
Investments	12	1,998	1,998
Long term loan to joint venture	14	1,608	1,495
		<u>108,195</u>	<u>99,348</u>
Current assets			
Trade and other receivables	15	3,724	3,779
Inventories	16	6	19
Cash and cash equivalents	17	3,089	2,274
		<u>6,819</u>	<u>6,072</u>
Total assets		<u>115,014</u>	<u>105,420</u>
LIABILITIES			
Current liabilities			
Trade and other payables	18	(7,915)	(9,381)
		<u>(7,915)</u>	<u>(9,381)</u>
Non-current liabilities			
Loan	19	(519)	-
Deferred tax liability	9(d)	-	-
Defined benefit pension scheme deficit	22	(24,275)	(21,433)
Deferred subsidies	20	(104,373)	(95,710)
		<u>(129,167)</u>	<u>(117,143)</u>
Total liabilities		<u>(137,082)</u>	<u>(126,524)</u>
NET (LIABILITIES)		<u>(22,068)</u>	<u>(21,104)</u>
EQUITY			
Ordinary shares	23	50	50
Retained Earnings		(22,118)	(21,154)
		<u>(22,068)</u>	<u>(21,104)</u>

The financial statements were authorised for issue by the Board of Directors on 22 August 2017 and signed on its behalf by:



Michael Cantlay, OBE
Chairman

Inglis Lyon
Managing Director
22 August 2017

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP CASH FLOW STATEMENT
AS AT 31 MARCH 2017

	Notes	2017 £000	2016 £000
<i>Cash flows from operating activities</i>			
Cash generated by/(used in) operations	24	16	(15)
Purchase of property, plant and equipment		(16,397)	(18,490)
Proceeds from sale of property, plant and equipment		99	70
Receipt of capital subsidy		16,287	18,246
Tax paid		-	-
<i>Net cash flow from operating activities</i>		<u>5</u>	<u>(189)</u>
<i>Cash flows from investing activities</i>			
Increase in loan to joint venture		(25)	(25)
<i>Net cash flow from investing activities</i>		<u>(25)</u>	<u>(25)</u>
<i>Cash flows from financing activities</i>			
Loan received		686	-
Interest paid		-	-
Interest received		8	35
<i>Net cash flow from financing activities</i>		<u>694</u>	<u>35</u>
<i>Increase/(Decrease) in cash and cash equivalents</i>		<u>674</u>	<u>(179)</u>
<i>Cash and cash equivalents at the beginning of the year</i>		<u>2,471</u>	<u>2,650</u>
<i>Cash and cash equivalents at the end of the year</i>		<u>3,145</u>	<u>2,471</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

The financial statements of Highlands and Islands Airports Limited and its subsidiaries (the Group) for the year ended 31 March 2017 were authorised for issue by the board of directors on 22 August 2017 and the Balance Sheet was signed on the Board's behalf by Michael Cantlay 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 2017.

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

2. Accounting policies

2.1a. Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention modified to account for investment property and the defined benefit pension scheme at fair value. 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.

2.1b. 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.

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.

As a result of the IAS 19 pension liability the Group has a net scheme deficit of £27.763m and the Company has a net deficit of £24.275m at 31 March 2017. 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 2017.

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, 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. Revenue, exclusive of value added tax, derived from aircraft leases is recognised on a straight-line basis over the period of the lease.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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.

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 interest 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 interest on plan assets and the interest cost on obligations 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 comprehensive 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.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (continued)

(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
Aircraft & Aircraft Spares	over 25 years
Vehicles	over 5 years to 10 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 to 5 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.

Aircraft are stated at cost less accumulated depreciation. Costs include directly attributable expenses associated with bringing the aircraft into a condition to be available for use.

(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 asset 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.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (continued)

(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 acquiree's 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.

(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.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (continued)

(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.

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.

2.3. Significant accounting policies (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 rate (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) 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, 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 2017. 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 properties.

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 properties are further explained in note 11.

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 22.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.5. Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year, except for the following amendments to IFRS which became effective during the year:

The following standards, amendments and interpretations became effective during the year and have been adopted in these financial statements. Their adoption has not had any impact on the amounts reported in these financial statements:

IAS 1	Presentation of Financial Statements
IAS 16	Property, Plant and Equipment
IAS 19	Employee Benefits
IAS 24	Related Party Disclosures
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 38	Intangible Assets
IFRS 7	Financial Instruments: Disclosures
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint arrangements
IFRS 12	Disclosure of Interests in Other Entities

2.6. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IAS 1	Presentation of Financial Statements
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 7	Financial Instruments: Disclosures
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

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. All of the above standards and interpretations are effective for periods commencing on or after 1 January 2017. 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.

IFRS 16 Leases

The Standard makes substantial changes to the recognition and measurement of leases by lessees. On adoption of the standard, lessees, with certain exceptions for short term or low value leases, will be required to recognise all leased assets on their balance sheet as 'right-of-use assets' with a corresponding lease liability. The requirements for lessors are substantially unchanged.

On application of the standard the disclosures are likely to increase for both lessors and lessees. The standard includes principles on disclosing the nature, amount, timing and variability of lease payments, and cash flows, by providing qualitative and quantitative information.

The Company has not as yet evaluated the full extent of the impact that the standard will have on its financial statements, nor the transitional provisions which may be utilised.

The standard is effective for periods beginning on or after 1 January 2019 but is yet to be endorsed by the EU.

3. Revenue

	2017 £000	2016 £000
Revenue recognised in the Income statement is analysed as follows:		
Revenue from airport charges	17,161	16,794
Concession revenues	2,303	1,936
Rental income	2,554	1,858
Total revenue	<u>22,018</u>	<u>20,588</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

4. Other income

	2017 £000	2016 £000
Government grants, Other grants & services rendered	<u>26,522</u>	<u>20,592</u>
	<u>26,522</u>	<u>20,592</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. In addition the Air Discount Scheme receives a payment for services rendered. The amount received in 2017 and 2016 was as follows:

	2017 £000	2016 £000
Revenue		
Scottish Government Operating subsidy	20,164	19,900
Scottish Government Air Discount Scheme	129	129
Scottish Government Other Grants	600	563
Miscellaneous Miscellaneous	<u>5,629</u>	<u>-</u>
	<u>26,522</u>	<u>20,592</u>

Capital

Scottish Government and other bodies	Operating subsidy and grants	16,287	18,120
		<u>16,287</u>	<u>18,120</u>
		<u>42,809</u>	<u>38,712</u>

5. Group operating (loss)

This is stated after charging/(crediting):

	2017 £000	2016 £000
Decrease/(increase) in fair value of investment properties	138	(28)
Depreciation of property, plant and equipment	8,338	8,189
Amortisation of intangible assets	12	246
Deferred subsidies release	(8,411)	(7,266)
Operating lease payments	43	44
Auditor's remuneration – audit services	33	30

6. Other (losses) & gains

	2017 £000	2016 £000
Gain on disposals of property, plant and equipment	99	59
(Decrease)/increase in fair value of investment properties	<u>(138)</u>	<u>28</u>
	<u>(39)</u>	<u>87</u>

7. Employee benefit expense

	2017 £000	2016 £000
Wages and salaries	20,329	20,097
Social security costs	2,140	1,758
Pension costs	4,151	4,572
Other staff costs	<u>620</u>	<u>970</u>
	<u>27,240</u>	<u>27,397</u>

The pension costs are in respect of defined benefit schemes and the defined contribution scheme.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

7. Employee benefit expense (continued)

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

	2017 No.	2016 No.
Administration	50	54
Air traffic services	85	85
Airport fire service	194	198
Apron operations	8	8
Engineering	21	20
Management	38	41
Security	221	216
	<u>617</u>	<u>622</u>

Directors' remuneration

	2017 £000	2016 £000
Emoluments	229	220
Pension contributions	23	23

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

	2017 No.	2016 No.
£0 to £5,000	-	-
£5,001 to £10,000	5	4
£10,001 to £20,000	1	-
£20,001 to £55,000	1	2
£145,001 to £150,000	1	1

The emoluments of the former chairman, who resigned on 30 June 2016, were £5,580 (2016: £22,319) and of the newly appointed chairman from 1 July 2016 were £16,759 (2016: £NIL). The emoluments of the highest paid director, Inglis Lyon, were £125,497 (2016: £123,174) excluding pension contributions of £22,998 (2016: £22,974).

Caledonian Maritime Assets Ltd charged the group £50,533 (2016: £44,115) for the services of a Director (note 26).

The Law Society of Scotland charged the group £8,734 (2016: £8,734) for the services of a Director (note 26).

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.

8. Finance revenue

	2017 £000	2016 £000
Bank interest receivable	8	35
Other finance income	131	120
	<u>139</u>	<u>156</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Taxation

(a) Tax charged in the Income statement

	2017 £000	2016 £000
Current income tax:		
Current income tax	-	-
Amounts overprovided in previous years	-	-
Total current income tax	-	-
Deferred tax:		
Origination and reversal of temporary differences	-	-
Effect of decreased tax rate on closing liability	-	-
Total deferred tax	-	-
Tax expense in the Income statement		
Income tax on continuing operations	-	-
The tax expense in the income statement is disclosed as follows:	-	-

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

	2017 £000	2016 £000
Tax on defined benefit pension scheme	-	-
Total current income tax	-	-
Deferred tax:		
Deferred tax on defined benefit pension scheme	-	-
Total deferred tax	-	-
Tax expense in statement of other comprehensive income	-	-

(c) Reconciliation of the total tax charge

The tax charge in the Income statement for the year is lower than the standard rate of corporation tax in the United Kingdom of 20% (2016: 20%). The differences are reconciled below:

	2017 £000	2016 £000
Accounting (loss) before income tax	(985)	(4,287)
Accounting (loss) multiplied by the UK standard rate of tax of 20% (2016: 20%)	(197)	(858)
Expenses not deductible for tax purposes	21	9
Tax losses carried forward	157	194
Tax losses utilised	(330)	(11)
Government grants exempt from tax	(1,774)	(1,511)
Pension provisions not tax deductible	167	528
Adjustment in respect of IFRS	201	-
Interest on redeemable shares	(23)	(21)
Adjustment relating to sale of assets	(14)	(33)
Adjustment relating to tax on UK GAAP	-	-
Net depreciation in excess of capital allowances	1,769	1,747
Share of JV not tax deductible	23	(44)
Deferred tax movement per note 9 (d)	-	-
Total tax charge reported in the Income statement	-	-

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Taxation (continued)

(d) Deferred tax

The deferred tax included in the Group and Company balance sheet and income statement is as follows:

	Balance sheet		Income statement	
	2017	2016	2017	2016
	£000	£000	£000	£000
Deferred tax liability				
Accelerated capital allowances	-	4,436	4,436	(1,082)
Revaluations of investment properties	190	225	35	-
	190	4,661	4,471	(1,082)
Deferred tax asset				
Accelerated capital allowances	4,602	-	4,602	-
Pensions	4,720	4,555	165	(821)
Tax losses carried forward	1,902	2,465	(563)	127
Deferred revenue	(4,965)	(4,901)	(64)	(7,732)
Deferred tax not recognised	(6,069)	2,542	(8,611)	9,508
	190	4,661	(4,471)	1,082

Disclosed on the Group and Company balance sheet and income statement

Deferred tax (liability)	-	-	-	-
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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 profit. There is insufficient evidence that this asset will be recovered to allow its recognition in the financial statements.

10. Property, plant and equipment

Group	Land and buildings freehold £000	Plant and equipment £000	Construction in progress £000	Total £000
Cost:				
At 1 April 2015	44,889	121,494	20,217	186,600
Additions	251	1,131	17,108	18,490
Disposals	-	(1,717)	-	(1,717)
Transfers	2,500	29,331	(31,831)	-
At 31 March 2016	47,640	150,239	5,494	203,373
Depreciation and impairment:				
At 1 April 2015	(28,697)	(62,519)	-	(91,216)
Provided during the year	(1,667)	(6,522)	-	(8,189)
Disposals	-	1,695	-	1,695
At 31 March 2016	(30,364)	(67,346)	-	(97,710)
Net book value:				
At 31 March 2016	17,276	82,893	5,494	105,663
At 31 March 2015	16,192	58,975	20,217	95,384

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

10. Property, plant and equipment (continued)

Group	Land and buildings freehold £000	Plant and equipment £000	Construction in progress £000	Total £000
Cost:				
At 1 April 2016	47,640	150,239	5,494	203,373
Additions	26	477	15,894	16,397
Disposals	(66)	(2,780)	-	(2,846)
Transfers	1,418	10,688	(12,106)	-
At 31 March 2017	49,018	158,624	9,282	216,924
Depreciation and impairment:				
At 1 April 2016	(30,364)	(67,346)	-	(97,710)
Provided during the year	(1,494)	(6,844)	-	(8,338)
Disposals	62	2,739	-	2,801
At 31 March 2017	(31,796)	(71,451)	-	(103,247)
Net book value:				
At 31 March 2017	17,222	87,173	9,282	113,677
At 31 March 2016	17,276	82,893	5,494	105,663

Company	Land and buildings freehold £000	Plant and equipment £000	Construction in progress £000	Total £000
Cost:				
At 1 April 2015	41,148	101,583	20,117	162,848
Additions	251	1,024	16,956	18,231
Disposals	-	(1,717)	-	(1,717)
Transfers	2,500	29,240	(31,740)	-
At 31 March 2016	43,899	130,130	5,333	179,362
Depreciation and impairment:				
At 1 April 2015	(26,048)	(53,096)	-	(79,144)
Provided during the year	(1,447)	(5,738)	-	(7,185)
Disposals	-	1,695	-	1,695
At 31 March 2016	(27,495)	(57,139)	-	(84,634)
Net book value:				
At 31 March 2016	16,404	72,991	5,333	94,728
At 31 March 2015	15,100	48,487	20,117	83,704

Company	Land and buildings freehold £000	Plant and equipment £000	Construction in progress £000	Total £000
Cost:				
At 1 April 2016	43,899	130,130	5,333	179,362
Additions	26	455	15,851	16,332
Disposals	(66)	(2,780)	-	(2,846)
Transfers	1,403	10,544	(11,947)	-
At 31 March 2017	45,262	138,349	9,237	192,848
Depreciation and impairment:				
At 1 April 2016	(27,495)	(57,139)	-	(84,634)
Provided during the year	(1,356)	(6,169)	-	(7,525)
Disposals	62	2,739	-	2,801
At 31 March 2017	(28,789)	(60,569)	-	(89,358)
Net book value:				
At 31 March 2017	16,473	77,780	9,237	103,490
At 31 March 2016	16,404	72,991	5,333	94,728

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Investment property

Investment properties are stated in the balance sheet at fair value as shown below:

	Group 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Valuation at 1 April	1,237	1,127	1,209	1,021
Additions	-	-	-	-
Disposals	-	-	-	-
Fair value adjustment	(138)	(28)	28	106
Valuation as at 31 March	<u>1,099</u>	<u>1,099</u>	<u>1,237</u>	<u>1,127</u>

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 Gerald Eve as at 31 March 2017, 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:

	2017	2016
Yields (%)	6% - 27%	9% - 20%
Inflation rate (%)	n/a	n/a
Long term vacancy rate (%)	n/a	n/a
Long term growth in real rental rates (%)	n/a	n/a

12. 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.

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:

	2017 £000	2016 £000
Share of the joint venture's balance sheet:		
Non-current assets	130	246
Current assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Share of other reserves	-	-
Share of net assets	<u>130</u>	<u>246</u>
	2017 £000	2016 £000
Share of the joint venture's results:		
Revenue	20	202
Net operating expenses	(145)	(145)
Loss/(profit) before taxation	(125)	57
Tax expense	9	(33)
Loss/(profit) after taxation	<u>(116)</u>	<u>24</u>

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12. Investments (continued)

(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 2016 and 2017 are as follows:

Name of company	Holding	Proportion of voting	Nature of business
Subsidiary undertakings:			
Airport Management Services Limited	Ordinary shares	100%	Airport services
Dundee Airport Limited	Ordinary shares	100%	Airport operations
Highland Airways Limited	Ordinary shares	100%	Dissolved
Inverness Air Terminal Limited	Ordinary shares	100%	Dormant
HIAL Leaseco Limited	Ordinary shares	100%	Dormant
Joint ventures:			
Inverness Airport Business Park Limited	Ordinary shares	34%	Property investment
Inverness Airport Business Park Limited	Redeemable shares	87%	Property investment

On 13 August 2015 the Company acquired 100% of the share capital of a newly incorporated company, Highland Airways Limited, in exchange for an initial consideration of £1. As the company was acquired when it was incorporated, there were no assets or liabilities to be disclosed prior to acquisition. The company was dissolved on 20th June 2017.

Inverness Air Terminal Limited and HIAL Leaseco Limited were dissolved on 31 January 2017.

Company	Subsidiary undertakings £000	Joint ventures £000	Total £000
Cost:			
At 1 April 2015	407	1,987	2,394
Acquisitions	-	-	-
Additions	-	1	1
At 31 March 2016	407	1,988	2,395
Amortisation and impairment:			
At 1 April 2015	(397)	-	(397)
Amortisation during the year	-	-	-
Impairment charges	-	-	-
At 31 March 2016	(397)	-	(397)
Net book value:			
At 31 March 2016	10	1,988	1,998
At 31 March 2015	10	1,987	1,997
	Subsidiary undertakings £000	Joint ventures £000	Total £000
Cost:			
At 1 April 2016	407	1,988	2,395
Acquisitions	-	-	-
Additions	-	-	-
Disposals	(397)	-	(397)
At 31 March 2017	10	1,988	1,998
Amortisation and impairment:			
At 1 April 2016	(397)	-	(397)
Amortisation during the year	-	-	-
Impairment charges	-	-	-
Disposals	397	-	397
At 31 March 2017	-	-	-
Net book value:			
At 31 March 2017	10	1,988	1,998
At 31 March 2016	10	1,988	1,998

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Intangible fixed assets

Group

	Total £000
Cost:	
At 1 April 2015	25,178
Acquisitions	-
Additions	-
At 31 March 2016	<u>25,178</u>
Amortisation and impairment:	
At 1 April 2015	(24,865)
Amortisation during the year	(246)
Impairment charges	-
At 31 March 2016	<u>(25,111)</u>
Net book value:	
At 31 March 2016	<u>67</u>
At 31 March 2015	<u>313</u>
Cost:	
At 1 April 2016	25,178
Acquisitions	-
Additions	-
At 31 March 2017	<u>25,178</u>
Amortisation and impairment:	
At 1 April 2016	(25,111)
Amortisation during the year	(12)
Impairment charges	-
At 31 March 2017	<u>(25,123)</u>
Net book value:	
At 31 March 2017	<u>55</u>
At 31 March 2016	<u>67</u>

Intangibles relate to a concession income agreement 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. Amortisation is included within administrative expenses. The intangible assets have a useful life of 54 years at 31 March 2017.

The following useful lives are used in the calculation of amortisation:-

Intangibles	-	10 years in relation to the concession income agreement and 7 and 60yrs in relation to the lease contracts
-------------	---	--

14. Loans to joint ventures

Group and company	2017 £000	2016 £000
Loans to joint venture	<u>1,608</u>	<u>1,495</u>
Total non-current financial assets	<u>1,608</u>	<u>1,495</u>

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.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. Trade and other receivables

Group

	2017	2016
	£000	£000
Trade receivables	2,704	2,593
Less: provision for impairment of receivables	(97)	(57)
Trade receivables net of impairment	<u>2,607</u>	<u>2,536</u>
Receivables from joint ventures	346	303
Prepayments and other accrued income	505	1,027
Other receivables	408	283
	<u>3,866</u>	<u>4,149</u>

Out of the carrying amount of trade receivables of £2,704,000, £1,732,000 relates to 4 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 2017, trade receivables at nominal value of £97,000 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:

	2017	2016
	£000	£000
At 1 April	(57)	(46)
Impairment losses recognised on trade receivables	(155)	(74)
Amounts written off as uncollectable	5	1
Receivables collected previously impaired	110	62
At 31 March	<u>(97)</u>	<u>(57)</u>

	2017	2016
	£000	£000
Neither past due nor impaired	1,779	1,736
Past due but not impaired:		
< 30 days	702	731
30 – 60 days	71	69
60 – 90 days	10	-
90 – 120 days	5	-
> 120 days	40	-
	<u>2,607</u>	<u>2,536</u>

As of 31 March 2017, trade receivables of £2,704,000 were considered for impairment and of which an amount of £97,000 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.

	2017	2016
	£000	£000
Ageing of impaired trade receivables:		
Up to 3 months	39	-
Between 3 and 6 months	3	2
More than 6 months	55	55
At 31 March	<u>97</u>	<u>57</u>

Company

	2017	2016
	£000	£000
Trade receivables	2,091	2,265
Less: provision for impairment of receivables	(57)	(55)
Trade receivables net of impairment	<u>2,034</u>	<u>2,210</u>
Receivables from subsidiaries	-	-
Receivables from joint ventures	346	303
Prepayments and other accrued income	831	984
Other receivables	513	282
	<u>3,724</u>	<u>3,779</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. Trade and other receivables (continued)

Out of the carrying amount of trade receivables of £2,091,000, £1,309,000 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 2017, trade receivables at nominal value of £57,000 were determined to be impaired because of poor payment history or insolvency of the debtor and are fully provided for. Movements in the provision for impairment of receivables were as follows:

	2017 £000	2016 £000
At 1 April	(55)	(40)
Impairment losses recognised on trade receivables	(115)	(16)
Amounts written off as uncollectable	4	(1)
Receivables collected previously impaired	109	2
At 31 March	<u>(57)</u>	<u>(55)</u>
	2017 £000	2016 £000
Neither past due nor impaired	1,291	1,676
Past due but not impaired:		
< 30 days	628	491
30 – 60 days	62	43
60 – 90 days	10	-
90 – 120 days	4	-
> 120 days	39	-
	<u>2,034</u>	<u>2,210</u>

As of 31 March 2017, trade receivables of £2,091,000 were considered for impairment and of which an amount of £57,000 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.

	2017 £000	2016 £000
Ageing of impaired trade receivables:		
Up to 3 months	-	-
Between 3 and 6 months	4	2
More than 6 months	53	53
At 31 March	<u>57</u>	<u>55</u>

16. Inventories

	Group 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Aviation fuel	44	6	21	1
Whisky shop stock	-	-	19	18
	<u>44</u>	<u>6</u>	<u>40</u>	<u>19</u>

17. Cash and cash equivalents

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

Group

	2017 £000	2016 £000
Cash at bank	3,145	2,471
Short term deposits	-	-
	<u>3,145</u>	<u>2,471</u>

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

17. Cash and cash equivalents (continued)

Company	2017	2016
	£000	£000
Cash at bank	3,089	2,274
Short term deposits	-	-
	<u>3,089</u>	<u>2,274</u>

18. Trade and other payables

Group	2017	2016
	£000	£000
Loans (note 19)	167	-
Trade payables	1,963	2,716
Other creditors and accruals	6,457	6,821
	<u>8,587</u>	<u>9,537</u>

Company	2017	2016
	£000	£000
Loans (note 19)	167	-
Trade payables	1,933	2,668
Amounts owed to other Group companies	326	1,175
Other creditors and accruals	5,489	5,538
	<u>7,915</u>	<u>9,381</u>

19. Loans

Group and Company	2017	2016
	£000	£000
Unsecured loans wholly repayable within five years, repayable in half-yearly instalments	686	-
Less repayable within twelve months (note 18)	(167)	-
	<u>519</u>	<u>-</u>
Instalments on the loans included above are repayable as follows:		
between one and two years	170	-
between two and five years	349	-
after five years	-	-
	<u>519</u>	<u>-</u>

At 31 March 2017 the group and company had 1 loan outstanding (2016: NIL). This loan is repayable to the Scottish Ministers at an interest rate of 1.78%. The loan is repayable over 4 years and by half yearly installments.

20. Deferred subsidies

Group	2017	2016
	£000	£000
Balance at 1 April	106,835	95,864
Subsidies receivable	16,287	18,246
Release to Income Statement	(8,411)	(7,266)
Release against asset disposals	(46)	(9)
Balance at 31 March	<u>114,665</u>	<u>106,835</u>
Company	2017	2016
	£000	£000
Balance at 1 April	95,710	83,874
Subsidies receivable	16,221	17,991
Release to Income Statement	(7,512)	(6,146)
Release against asset disposals	(46)	(9)
Balance at 31 March	<u>104,373</u>	<u>95,710</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21. 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 within 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 2017 and 31 March 2016 based on contractual undiscounted payments:

	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Trade and other payables						
At 31 March 2017	-	8,420	-	-	-	8,420
At 31 March 2016	-	9,537	-	-	-	9,537
Borrowings						
At 31 March 2017	-	-	167	519	-	686
At 31 March 2016	-	-	-	-	-	-

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:

	Carrying amount		Fair value	
	2017 £000	2016 £000	2017 £000	2016 £000
Financial assets				
Loans and receivables	1,608	1,495	1,608	1,495
Trade and other receivables	3,520	3,846	3,520	3,846
Loans receivable	346	303	346	303
Financial liabilities				
Trade and other payables	8,420	9,537	8,420	9,537
Borrowings	686	-	686	-

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.

22. Pensions

The Group operates for its employees two final salary defined benefit pension schemes – the Highlands and Islands Airports Pension Scheme (HPS) and the Tayside Superannuation Fund (TSF) and one defined contribution scheme. Group member numbers of each fund at 31 March 2017 were 498 (2016: 468) and 57 (2016: 57). Both schemes are operated and located in the United Kingdom and require contributions to be made to separately administered funds.

The values of the scheme obligations have been determined by a qualified actuary based on the preliminary actuarial valuation as at 31 December 2016 for the HPS and the actuarial valuation as at 31 March 2014 for the TSF, both updated to the balance sheet date.

The actuarial valuation of HPS as at 31 December 2016 has not been finalised. The 2013 actuarial valuation illustrated that the scheme was in surplus by £1,100,000.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22. Pensions (continued)

The TSF is disclosed in the accounts of the subsidiary, Dundee Airport Limited (DAL).

The HPS is disclosed in the accounts of the Company, with both schemes being disclosed in the Group accounts.

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

At 31 March 2016	HPS £000	TSF £000	Total £000
Scheme assets at fair value			
Equities	48,588	3,532	52,120
Gilts	11,135	270	11,405
Other bonds	31,379	666	32,045
Property	10,122	629	10,751
Cash	-	57	57
Fair value of scheme assets	101,224	5,154	106,378
Present value of scheme liabilities	(122,657)	(6,497)	(129,154)
Defined benefit pension scheme deficit	(21,433)	(1,343)	(22,776)

At 31 March 2017	HPS £000	TSF £000	Total £000
Scheme assets at fair value			
Equities	59,428	4,762	64,190
Gilts	13,074	438	13,512
Other bonds	34,469	652	35,121
Property	10,697	652	11,349
Cash	1,189	109	1,298
Fair value of scheme assets	118,857	6,613	125,470
Present value of scheme liabilities	(143,132)	(10,101)	(153,233)
Defined benefit pension scheme deficit	(24,275)	(3,488)	(27,763)

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 2016

	HPS £000	TSF £000	Total £000
Recognised in Income Statement			
Current service cost	3,907	311	4,218
Past service cost	-	-	-
Recognised in arriving at operating loss	3,907	311	4,218

Administration cost	191	1	192
Interest cost on scheme assets	(3,574)	(178)	(3,752)
Interest cost on obligations	4,406	239	4,645
Other finance cost	1,023	62	1,085

	HPS £000	TSF £000	Total £000
Taken to the Statement of Comprehensive Income			
Return on plan assets in excess of interest	(5,356)	(224)	(5,580)
Change in financial assumptions	11,203	899	12,102
Actuarial gains recognised in the Statement of Comprehensive Income	5,847	675	6,522

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

22. Pensions (continued)

Year ended 31 March 2017

Recognised in Income Statement

	HPS £000	TSF £000	Total £000
Current service cost	3,410	276	3,686
Past service cost	-	-	-
Recognised in arriving at operating loss	<u>3,410</u>	<u>276</u>	<u>3,686</u>

Administration cost	172	2	174
Interest cost on scheme assets	(3,930)	(206)	(4,136)
Interest cost on obligations	4,708	254	4,962
Other finance cost	<u>950</u>	<u>50</u>	<u>1,000</u>

Taken to the Statement of Comprehensive Income

	HPS £000	TSF £000	Total £000
Return on plan assets in excess of interest	11,991	1,001	12,992
Change in demographic assumptions	7,389	-	7,389
Experience gain on liabilities	10,325	-	10,325
Change in financial assumptions	(30,805)	(3,046)	(33,851)
Actuarial losses recognised in the Statement of Comprehensive Income	<u>(1,100)</u>	<u>(2,045)</u>	<u>(3,145)</u>

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

	HPS £000	TSF £000	Total £000
Defined benefit obligation at 1 April 2015	126,211	6,815	133,026
Current service cost	3,907	311	4,218
Past service cost	-	-	-
Interest cost	4,406	239	4,645
Benefits paid	(1,447)	(49)	(1,496)
Contributions by scheme participants	783	80	863
Change in financial assumptions	(11,203)	(899)	(12,102)
Defined benefit obligation at 31 March 2016	<u>122,657</u>	<u>6,497</u>	<u>129,154</u>

Defined benefit obligation at 1 April 2016

	HPS £000	TSF £000	Total £000
Current service cost	3,410	276	3,686
Past service cost	-	-	-
Interest cost	4,708	254	4,962
Benefits paid	(1,507)	(57)	(1,564)
Contributions by scheme participants	773	85	858
Change in demographic assumptions	(7,389)	-	(7,389)
Experience gain on liabilities	(10,325)	-	(10,325)
Change in financial assumptions	30,805	3,046	33,851
Defined benefit obligation at 31 March 2017	<u>143,132</u>	<u>10,101</u>	<u>153,233</u>

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

	HPS £000	TSF £000	Total £000
Fair value of scheme assets at 1 April 2015	101,198	4,950	106,148
Interest on scheme assets	3,574	178	3,752
Contributions by employer	2,663	220	2,883
Contributions by scheme participants	783	80	863
Benefits paid	(1,447)	(49)	(1,496)
Administration costs	(191)	(1)	(192)
Return on plan assets less interest	(5,356)	(224)	(5,580)
Fair value of scheme assets at 31 March 2016	<u>101,224</u>	<u>5,154</u>	<u>106,378</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22. Pensions (continued)

	HPS £000	TSF £000	Total £000
Fair value of scheme assets at 1 April 2016	101,224	5,154	106,378
Interest on scheme assets	3,930	206	4,136
Contributions by employer	2,618	226	2,844
Contributions by scheme participants	773	85	858
Benefits paid	(1,507)	(57)	(1,564)
Administration costs	(172)	(2)	(174)
Return on plan assets less interest	11,991	1,001	12,992
Fair value of scheme assets at 31 March 2017	118,857	6,613	125,470

The Group expects to contribute £2,932,000 to its defined benefit pension plans in 2017/18.

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 2017 (%)	2016 (%)	TSF 2017 (%)	2016 (%)
<i>Main assumptions:</i>				
Rate of salary increases	2.35	3.25	3.60	3.40
Rate of increase in pensions in payment*	3.35	3.25	2.70	2.50
Discount rate	2.80	3.85	2.80	3.90
RPI Inflation	3.35	3.25	3.60	3.40

*HPS only - Pensions in payment increase in line with RPI for service accrued prior to October 2012 and CPI for service after October 2012. The assumed rate of increase is 3.35% for RPI and 2.35% for CPI.

Discount rate

The discount rate on the HPS and the TSF scheme is the yield on the Merrill Lynch AA Corporate Bond index at a term of 25 years.

Expected rate of return on assets

The expected rate of return on assets under the revised IAS 19 effectively sets the expected return equal to the discount rate.

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 S2PA table has been used making allowance for future improvements to be in line with the 2016 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 S2PA table has been adjusted by 120% (to reflect the particular characteristics of the scheme) making allowance for future improvements to be in line with the 2013 CMI projection model with a long term improvement rate of 1.5% 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.

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):

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22. Pensions (continued)

Change in assumption

	Change mortality assumption to S2PA with CMI 2013 projection £000	Reduce discount rate by 0.50% £000	Increase inflation by 0.50% £000
Fair value of scheme assets	118,857	118,857	118,857
Present value of defined benefit obligation	(147,453)	(162,582)	(161,414)
Defined benefit pension scheme deficit	(28,596)	(43,725)	(42,557)

In respect of the TSF scheme, the following table sets out the impact of a change in the discount rate 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% £000	-0.1% £000	+1 year £000	-1 year £000
Projected service cost	417	441	443	416
Present value of defined benefit obligation	9,839	10,370	10,439	9,774

The projected pension expense for the year ending 31 March 2018 is as follows:

	HPS £000	TSF £000	Total £000
Current service cost	4,772	429	5,201
Net interest in defined benefit liability	634	94	728
Administration expenses	175	3	178
Total	5,581	526	6,107

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

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
HPS					
Fair value of scheme assets	118,857	101,224	101,198	87,532	82,061
Present value of defined benefit obligation	(143,132)	(122,657)	(126,211)	(98,072)	(97,795)
(Deficit)	(24,275)	(21,433)	(25,013)	(10,540)	(15,734)
Experience adjustment on plan liabilities	-	-	-	(160)	-
Experience adjustments on plan assets	11,991	(5,356)	7,886	(664)	5,809
	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
TSF					
Present value of defined benefit obligation	(10,101)	(6,497)	(6,815)	(4,884)	(3,776)
Fair value of scheme assets	6,613	5,154	4,950	4,225	3,765
(Deficit)	(3,488)	(1,343)	(1,865)	(659)	(11)
Experience adjustment on plan liabilities	-	-	(72)	121	-
Experience adjustments on plan assets	1,001	(244)	355	106	384

23. Share capital

	Group and Company	
	2017 £000	2016 £000
Authorised shares	50	50
Allotted, called up and fully paid ordinary shares of £1 each	50	50

Fully paid ordinary shares, which have a par value of £1, carry one vote per share and carry a right to dividends.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24. Cash generated by/(used in) operations

	2017	2016
	£000	£000
Operating loss	(8)	(3,382)
Amortisation and impairment of intangibles	12	246
Depreciation of property, plant and equipment	8,338	8,189
(Increase)/decrease in inventories	(4)	36
Decrease in trade and other receivables	326	264
(Decrease)/increase in trade and other payables	(1,118)	650
Deferred subsidies released	(8,411)	(7,266)
Fair value movement on investment properties	138	(28)
Difference between pension contributions and charges	842	1,335
(Gain) on disposal of property, plant and equipment	(99)	(59)
Cash generated by/(used in) operations	16	(15)

25. Obligations under leases and hire purchase contracts

Operating lease agreements where the Group and Company is the lessee

The Group and Company 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:

	2017	2016
	£000	£000
Not later than one year	43	44
Later than one year and not later than five years	82	123
Later than five years	-	-
	125	167

Operating Lease IAS 17 Disclosure where the Group and company is the lessor

The Company and Group have entered into a commercial lease on two aircrafts. This lease is for four years and is directly connected with the Public Service Obligation services from Glasgow to Campbeltown, Tiree and Barra.

As per IAS17 the following minimum lease payments at the balance sheet under non-cancellable operating lease are as follows:

	2017	2016
	£000	£000
Not later than one year	712	712
Later than one year and not later than five years	1,128	1,840
Later than five years	-	-
	1,840	2,552

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26. 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 £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Related party					
<u>Joint ventures:-</u>					
Inverness Airport Business Park Ltd	2017	2	-	346	-
	2016	1	-	303	-
<u>In relation to key management personnel:-</u>					
Caledonian Air Surveys Ltd	2017	3	-	-	-
	2016	3	-	-	-
Director: T Whittome	2017	1	-	-	-
	2016	1	-	-	-
Caledonian Maritime Assets Ltd	2017	-	56	-	-
	2016	-	46	-	17
The Law Society of Scotland	2017	-	9	-	1
	2016	-	9	-	1
Intercompany Balances					
DAL	2017	367	-	476	-
	2016	356	-	356	694
AMSL	2017	48	5,636	-	326
	2016	-	5,233	-	481

The amounts outstanding are unsecured for cash settlement in accordance with usual terms.

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 Ministers (the ultimate controlling party of the Group). The significant transactions between the Group and Scottish Ministers are the subsidies, disclosed in note 4.

Loans to related party		Amounts owed by related party
		£000
Joint ventures		
Inverness Airport Business Park Ltd.	2017	1,608
	2016	1,495

The loan made to IABP is not interest bearing. Further details are provided in note 14.

Controlling party

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

27. Commitments and contingencies

Capital Commitments

At 31 March 2017, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £2,242,000 for the Group (2016: £14,798,000) and £1,623,000 for the Company (2016: £14,080,000).

Contingent liabilities

The Company has guaranteed the bank overdraft of a joint venture to the extent of £100,000. This has not been utilised at 31 March 2017. The risk of default by this joint venture is considered low, and as such the initial fair value of this guarantee has been assessed as £nil.

28. 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 2016 and 31 March 2017.

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