Registered No: SC97647

Highlands and Islands Airports Limited

Report and Financial Statements

31 March 2014

SG/2014/149

Registered No: SC97647

Contents

Registered No: SC97647

Corporate Information

Directors
Grenville Johnston OBE TD CA, Chairman
Inglis Lyon, Managing director
Gillian Bruton
Lorna Jack-Hooijenga
James McLaughlin
David Savile
Timothy Whittome

Company secretary
Inglis Lyon

Registered office
Head office
Inverness airport
Inverness
IV2 7JB

Auditor
Scott Moncrieff
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Actuaries
Barnett Waddingham LLP
163 West George Street
Glasgow
G2 2JJ

Registered No: SC97647

Who we are

Highlands and Islands Airports Ltd (HIAL) is a private limited company wholly owned by 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 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 the Transport Scotland – Aviation, Maritime, Freight and Canals Directorate.

The 2013/14 HIAL Annual Report and Group Financial Statements have been submitted to Scottish Ministers.

Registered No: SC97647

Annual traffic statistics

For the year ended 31 March 2014

	Passengers			Movements		
	2013/14	2012/13	Variance	2013/14	2012/13	Variance
Barra	9,230	11,567	-20%	863	1,344	-36%
Benbecula	31,781	36,439	-13%	3,461	4,522	-24%
Campbeltown	9,973	10,085	-1%	1,593	1,477	+8%
Dundee	26,774	48,312	-45%	39,045	38,215	+2%
Inverness	619,463	611,382	+1%	29,648	30,740	-4%
Islay	27,297	26,766	+2%	2,668	2,833	-6%
Kirkwall	177,899	164,228	+8%	14,651	14,122	+4%
Stornoway	127,074	128,010	-1%	10,961	11,997	-9%
Sumburgh	287,525	217,502	+32%	17,581	15,162	+16%
Tiree	9,045	9,464	-4%	1,257	1,232	+2%
Wick	41,281	33,921	+22%	7,378	6,001	+23%
Total	1,367,342	1,297,676	+5%	129,106	127,645	+1%

Chairman's statement

The Highlands and Islands have a rich tradition of air travel. For the most part, this is born by necessity; with the best will in the world it simply is not possible to travel great distances using other forms of transport. Ferries perform a valuable role serving our most remote communities, but those communities are especially reliant on the air links that connect them to the mainland and beyond. We are part of a lifeline service.

But there is also an excitement attached to air travel. Even in the era of low cost travel, it is still a thrill to fly. One can only imagine the excitement in Inverness, on 8 May 1933, when Scotland's first internal air service took off, with the daring Captain Ted Fresson at the controls, flying from the Municipal Airport in the Longman in Inverness, en route to Kirkwall via Wick.

More than 80 years later, I was delighted to represent the Fresson Trust, a charitable trust set up in his honour, at an event at Wick John O'Groats Airport to commemorate this historic achievement. Fresson's fledgling airline, Highland Airways Ltd, was to play a key role in the commercial development of the north of Scotland, creating new opportunities for business and tourism in the region.

Of course, the airline industry has changed markedly since Fresson's day but the contribution it makes to Scotland's regional economy remains profound. Businesses rely on connectivity; the ability to connect people around the globe and move goods to market quickly and effectively is essential for business. Airlines such as easyJet, Flybe, Eastern Airways and Scotland's own Loganair have transformed the way we live and work, particularly in some of the most remote corners of Scotland, for whom air travel remains an absolute necessity.

While many of Scotland's largest airports have secured new high profile international services in recent months, our challenge as a regional airport operator is very different. In many cases, our priority is to retain the existing services we have – often a real challenge in the face of economic difficulties, low population density and capacity constraints elsewhere.

I am therefore particularly delighted that HIAL recorded its busiest ever year in 2013/14, attracting an extra 70,000 passengers during the period. This is a testament to our success, often in partnership with local authorities and central government, at securing new air services, not just in Inverness – which recorded its busiest year for five years – but across our network of airports. From Sumburgh to Campbeltown to Dundee, we have succeeded in improving connectivity.

I am grateful to the many people who have shared their airport experiences with the HIAL Board as we travel across the HIAL network. As a Board, it is important that we hear at first hand what staff, passengers and local stakeholders think about what we are doing right, and also tell us where we can improve as a business. I would like to thank our airport staff for their efforts over the past year. HIAL employs almost 600 staff across its network of airports. We support many more in a contractor role around our airports. We regard them all as ambassadors for HIAL and the communities we serve. I am grateful to all of them for their hard work and professionalism.

Finally, the Board has said farewell to some familiar faces this year, and welcomed some new members. I would like to pay tribute to outgoing Board members Andrew Castell and Mike Cantlay, both of whom have made a significant contribution to the company – Andrew's business and finance expertise was invaluable, particularly during the turbulent period of the global downturn, while Mike brought his considerable expertise in aviation and tourism to the fore. They leave the Board with our sincere thanks and good wishes. I am pleased to welcome Lorna Jack and Jim Mclaughlin as new members of the HIAL Board; both have extensive experience and will be great assets to the HIAL team as we navigate our way through challenges yet to come.

Grenville Johnston
Chairman

Aithisg an Cathraiche

'S e traidisean lìonmhor a th' ann an siubhal adhair anns a' Ghàidhealtachd is na h-Eileanan. Tha e riatanach do dhaoine a bhith siubhal an dòigh seo a chionn 's nach eil e comasach a dhol astar uabhasach mòr a' cleachdadh dòighean-siubhail eile. Tha bàtaichean-aiseig a' cluich pàirt cudromach, a' toirt seirbheisean do choimhearsnachdan a tha gu math iomallach. Tha na coimhearsnachdan seo a' cur earbsa anns na puirt-adhair a tha gan ceangal chun tìr-mòr agus thall thairis. 'S e pàirt de sheirbheis loidhne-teasairginn a th' unainn.

Ach tha adhbhar-dùsgaidh gu deimhinn an lùib siubhal adhair. Ged a tha e nas saor siubhal 'san latha an diugh, tha e fhathast brosnachail a' bhith a' sgèith. Smaoinich air an toileachas a bha ann an Inbhir Nis air 8 An Cèitean 1933, nuair a thòisich a' chiad seirbheis adhair meadhanail, nuair a thug Caiptean Ted Fresson, duine urrantachd, stiùir de dh'ìtealan, a' sgèith bho port-adhair a' bhaile mhòr aig Longman ann an Inbhir Nis, gu Baile na h-Eaglais thairis air Inbhir Uige.

Barrachd air 80 bliadhna an dèidh seo, bha e na thoileachas dhomh riochdachadh am Fresson Trust, urras charthanta a chaidh a chur air bhonn mar chuimhneachan air, aig tachartas aig Port-adhair Inbhir Uige Taigh Iain Ghròt airson an euchd eachdraidheil a chuimhneachadh. Bha an seirbheis adhair a thòisich Fresson, Highland Airways Ltd a' dol a chluich pàirt chudromach ann an leasachadh malairteach air taobh a tuath na h-Alba agus a' dol a chruthachadh cothroman ùra do ghnìomhachasan agus turasachd san sgìre.

Gun teagamh, tha gnìomhachas na seirbheis adhair air atharrachadh bho àm Fresson ach tha an cuideachadh a thug e do dh'eaconomaidh sgìreil na h-Alba fhathast domhainn. Tha gnìomhachasan a' cur earbsa ann a bhith ceangailte; tha seo deatamach dhaibh airson an stuth aca a ghluasad gu luath agus gu h-èifeachdach gu margaidean. Tha seirbheisean adhair leithid easyJet, Flybe, Eastern Airways agus Loganair air ar beò-shlàinte agus ar dòigh-obrach atharrachadh, gu h-àraidh anns na cearnaidhean as iomallaich de dh'Alba, far a bheil siubhal adhair uabhasach riatanach.

Ged a fhuair tòrr de na puirt-adhair as motha seirbheisean suaicheanta eadar-nàiseanta anns na mìosan a chaidh seachad, tha an dùbhlan a th' againn mar gnìomhaiche puirt-adhair sgìreil gu math diofraichte. 'S e a' cheud chothrom againn, gun glèidh sinn na seirbheisean a th' againn mar thà – glè thric, 's e dùbhlan a tha seo aig àm nuair a tha an eaconomaidh cruaidh co-dhiubh, àireamh sluaigh ìosal, agus èiginn air comas ann an àitean eile.

Airson an adhbhar sin, tha mi gu sònraichte toilichte gu bheil HIAL air a' bhliadhna as trang a bh'againn a-riamh a chlàradh ann an 2013/2014, a' tarraing 70,000 luchd-siubhail a bharrachd fad a' chuairt seo. Tha seo a' dearbhadh cho soirbheachail sa tha sinn air a bhith, gu math tric ann an com-pàirteachas le ùghdarrasan ionadail agus riaghaltas meadhanach, a' faighinn seirbheisean-adhair ùra, chan ann an Inbhir Nis a-mhàin – a chlàr am bliadhna as trang ann an còig bliadhna – ach air feadh lìonradh ur puirt-adhair. Bho Sumburgh gu Ceann Loch Chille Chiarain gu Dùn Dè, tha sinn air ar ceangalan a leasachadh.

Tha mi taingeil don a h-uile duine a chur fiosrachadh air an eòlas a bh' aca air ar puirt-adhair gu Bòrd HIAL nuair a shiubhail iad thairis air lìonradh HIAL. Tha e cudromach fios fhaighinn bhon luchd-obrach, luchd-siubhal agus an luchd-ùidhe mu na rudan a tha sinn a' dèanamh ceart agus ciamar is urrainn dhuinn ar gnìomhachas a leasachadh. Bu chaomh leam taing a thoirt gu luchd-obrach na puirt-adhair airson an obair a rinn iad thar a' bhliadhna a chaidh seachad. Tha 600 luchd-obrach thar lìonradh puirt-adhair HIAL. Tha sinn a' toirt barrachd obair eile do luchd-cùnnraidh timcheall air ar puirt-adhair.

Tha sinn a' smaoineachadh gur e tosgairean dha HIAL agus na coimhearsnachdan againn a th' anns a h-uile gin dhiubh. Tha mi fada an comain ar luchd-obrach uile airson an obair chruaich is cho proifeasanta sa bha iad thar a' bhliadhna a chaidh seachad.

Mu dheireadh thàll, thug a' Bhòrd soraidh slàn dha buill am bliadhna sa agus chur sinn fàilte air buill ùra. Bu mhath leam ùmhlachd a thoirt dha Anndra Castell agus Mike Cantlay a bhios a' fagail a' Bhùird, an dithis aca a thug cuideachadh mòr dhan a' chompanaidh. Bha an eòlas aig Anndra os cionn luach, gu h-àraidh rè àm nuair nach robh an eaconomaidh cho math air feadh an t-saoghail, agus bha eòlas mòr aig Mike ann an siubhail-adhair agus turasachd. Tha iad a' fàgail a' Bhùird le ar

Aithisg an Cathraiche

taing mhòr agus beannachdan. Tha mi toilichte fàilte a chur gu Lorna Jack agus Jim McLaughlin mar bhuill ùra dhen Bhòrd HIAL; dithis le mòran eòlais a bhios nan taic mhòr do sgioba HIAL nuair a bhios sinn ag obair tro dhùbhlain sam bith a thig mu ar coinneamh.

Grenville Johnstone
Cathraiche

Registered No: SC97647

Managing director's statement

Dear stakeholder

In many respects, 2013/14 was a particularly successful year for HIAL, with record passenger numbers and a host of new or expanded routes across a number of airports. The period also saw significant investment in new capital projects, future proofing our airports for forecast growth. But there were challenges too, not least as some of our airline partners sought to rationalise their business in the face of rising costs, the future of access to the south east remained up in the air, and the impact of Air Passenger Duty (APD) continued to be felt across the industry.

Group operating performance
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.

HIAL drew upon its cash reserves in 2013/14 to help fund additional investment in infrastructure and to support HIAL's operational activities whilst saving the Scottish Government grant funding costs. This resulted in an increase in the operating loss, from £769,000 to £3.78 million.

Encouragingly, HIAL's third party revenue increased by £1.75 million during the year, an increase of 9.7% which is a significant achievement.

The underlying performance of the company also showed continued success in reducing operating costs and delivering value for money for the taxpayer.

Passenger numbers
In 2013/14, HIAL recorded its busiest ever year with 1.36 million passengers, an increase of 5.4% (representing some 70,000 additional passengers) on the previous year. Sumburgh and Wick John O'Groats were the fastest growing airports in Scotland as a result of increased energy sector traffic, with passenger numbers increasing by 32.2% and 21.7% respectively.

Kirkwall attracted an extra 13,700 passengers over the previous year, while at Inverness, passenger numbers grew to 619,000 as the group's largest airport enjoyed its busiest year for five years, with strong demand for the airport's domestic and international network, including a new winter service to Geneva.

Elsewhere in the group, particularly at HIAL's smaller island airports, passenger numbers were affected by changes to airline schedules.

Investment
During the period, HIAL invested almost £17 million on key infrastructure projects, including £9.5 million on essential repairs to sections of the runway at Sumburgh, increasingly subject to erosion after years of heavy storm damage. HIAL also invested some £123,000 upgrading the air traffic control building at Barra, £1.4 million to upgrade the runway at Inverness and a further £961,000 on a taxiway extension at Inverness, which included providing a link from the runway to the Inverness Airport Business Park airside site. This investment is designed to ready the site for future development including a new Search and Rescue helicopter facility, to be operated by Bristow Helicopters, starting in 2015.

During the period, HIAL also invested £1 million on four new state of the art fire appliances for Stornoway and Benbecula airports. These appliances have undergone rigorous trials and are now in operation. Over time, 20 new appliances will be commissioned across the HIAL group, at a cost of £7 million.

Safety

The aviation industry is rightly proud of its safety track record. For HIAL, safety comes first. We work closely with airlines, Government, our local authority partners and with the emergency services to ensure that our airports operate smoothly, efficiently and, above all, safely.

Customer Service
The public expect high standards at our airports and HIAL is committed to delivering a consistent, high quality level of service across our network. Inverness Airport has provided a strong model for success, receiving a string of awards, including Hospitality Assured Status, in recognition of its commitment to customer service. Inverness was also recognised as the highest ranking airport in Scotland in terms of customer satisfaction, in a study by consumer group Which?

In 2013/14, HIAL became the first airport group in Scotland to roll out free WiFi to passengers, which has been welcomed.

Route development
2013/14 presented a range of challenges in terms of connectivity. In May 2013, Flybe announced the withdrawal of its Inverness to London Gatwick service, citing high costs at the London airport and the impact of APD on passenger numbers. In November, the airline announced the closure of several bases across the UK, including Inverness, as part of a major restructuring process. Since then, Flybe has worked hard to return to profitability and has recently announced new services from Inverness to London City and Dublin, and increased frequency to Manchester. Meanwhile easyJet launched a new double daily service from Inverness to London Gatwick with flights conveniently timed for business travellers going South. Elsewhere in the group, Loganair launched new Sunday flights from Glasgow to Campbeltown and increased capacity on its Glasgow to Sumburgh and Edinburgh to Wick John O'Groats services, in response to growing North Sea oil and gas activity. In addition, Loganair secured a Public Service Obligation contract to operate a new twice daily weekday service from Dundee to London Stansted over the next two years. The new route offers business and leisure passengers easy access to London and a wider choice of international connections from the UK's fourth busiest airport.

Connectivity
A number of national policy issues affecting the UK aviation industry arose during the year. HIAL made a detailed submission to the Airports Commission, currently considering the future aviation capacity needs of the UK. In its submission, HIAL stressed the distinct challenges faced by regional airports, not least those which serve remote or island communities, for whom air travel is a necessity not a luxury. We were pleased that Sir Howard Davies, Chair of the Commission, visited Inverness to meet local stakeholders. We will continue to engage with the Commission and impress upon them the important enabling role our airports perform in supporting global connections for Highlands and Islands businesses.

HIAL also took part in a European Commission consultation on plans to reform EU state aid guidelines for airports and airlines. HIAL criticised the EC's plans to limit state aid for airlines to launch a new route to two years as a missed opportunity, and argued successfully for funding for smaller airports to be extended to three years.

Community
HIAL's airports are very much integral to the communities they serve. We recognise they provide a vital social and economic lifeline, creating much needed employment, both at the airports and in the many businesses and tourism attractions that exist and thrive as a result of air travel.

In 2014, HIAL established a new partnership between Kirkwall Airport and Orkney College UHI to provide fire safety training for the maritime sector. This partnership is an excellent illustration of how HIAL works with local partners to share learning and expertise.

HIAL's airports also work closely with their communities to showcase local arts and cultural events. We are conscious too of our commitments in respect of the Gaelic language. In 2014, HIAL published its first Gaelic Language Plan, setting out plans to promote Gaelic language and culture across our airports. A programme of Gaelic language training is currently being rolled out.

Many of our staff go to extraordinary lengths to raise funds in support of local and international charities. We are rightly very proud of the contribution they make to their local communities.

Our people

Finally, I would like to echo the comments of our Chairman and add my thanks to the many hundreds of people across our airports, including our own staff and those employed by airlines, handling agents and other vital service providers, who ensure the safe and efficient operation of our airports and deliver a high quality of service for passengers across regional Scotland.

Inglis Lyon
Managing Director

Aithisg am Manaidsear-stiùiridh

Ann an iomadh dòigh 's e bliadhna gu math soirbheachail airson HIAL a bh' ann an 2013/14, leis an àireamh de luchd-siubhail as àrd a bh' againn a-riamh, agus slighean ùra stèidhte aig grunn phuirt-adhair. Rè an àm seo, chuir sinn airgead-seilbh cudromach ann am prìomh phròiseactan, a' dìon ar puirt-adhair gus a fàsadh iad san àm ri teachd. Ach, bha dùbhlain ann cuideachd aig àm nuair a bha com-pàirteachan a' cur an ìre na gnìomhachasan aca seach gu robh prìsean ag èirigh. Bha ceangalan leis an ear-dheas cugallach airson an àm ri teachd, agus bha an roinn fhathast a' faireachdainn buaidh an Air Passenger Duty (APD).

Dèanadas obrach na buidhne

Mar bhuidheann phort-adhar phoblach tha HIAL a' dèanamh cinnteach gu bheil a' bhuidseat air a chosg gu buannachd na buidhne. 'S e dùbhlan a tha seo a thaobh gu bheil cuideam air buidseat roinn a' phoblach, gu h-àraidh ann an grunn de na puirt-adhair as iomallaich, far a bheil an àireamh luchd-siubhail nas laogha agus cosgaisean seasmhachd fhathast gu math àrd.
Ann an 2013/14 chuir HIAL airgead cùl-stòr a dh' ionnsaigh bunstructair agus airson cuideachadh a thoirt do ghnìomhan obrach na buidhne agus aig an aon àm, a' sàbhaladh cosgaisean maoin Riaghaltas na h-Alba. Thug seo buil nas àrd air call na buidhne, bho £769,000 gu £3.78 millean. Dh'fhàs teachd-a-steach 'third party' HIAL le £1.7 millean sa bhliadhna seo, àrdachadh de £9.7% a tha na euchd cudromach.

Tha e foilleasach bho dèanadas na buidhne cuideachd gu bheil sinn fhathast soirbheachail ann a bhith a' lùghdachadh cosgaisean-obrachaidh agus a' toirt luach mhath do luchd-paighidh nan cìsean.

Àireamh luchd-siubhail

Ann an 2013/14, chlàr HIAL a' bhliadhna a bu thrang a-riamh le 1.36 millean luchd-siubhail, suas 5.4% (a' riochdachadh 70,000 luchd-siubhail a bharrachd) air a' bhliadhna roimhe.

Dh'fhàs puirt-adhair Sumburgh agus Inbhir Uige Taigh Iain Ghròit gu luatha leis mar a mheudaich àireamhan luchd-siubhail a bha ag obair ann an gnìomhachas a' chumhachd, le àireamhan luchd-siubhail a' fàs 32.2% agus 21.7% fa leth.

Chaidh 13,700 luchd-siubhail a bharrachd gu Baile na h-Eaglaise an taca ris a' bhliadhna ron a sin, agus aig Inbhir Nis, dh' fhàs àireamh luchd-siubhail gu 619,000 nuair a bha a' phort-adhair as motha san lìonra a' gabhail tlachd anns a' bhliadhna a bu thrang ann an còig bliadhna, le iarratas làdair airson siubhal itealain dachaigheil agus eadar-nàiseanta, a' gabhail a-steach seirbheis ùr geamhraidh gu Geneva.

Bha ìsleachadh ann an àireamhan luchd-siubhail aig na puirt-adhair as laogha aig HIAL ri linn atharrachaidhean mòra 's a' chlàr ama.

In-ionmhas

Aig an àm seo, chosg HIAL cha mhòr £17 millean air pròiseactan bunstructair, nam measg £9.5 millean air càireadh pàirtean den raon-itealan ann an Sumburgh, far an do rinn bleitheadh cron an dèidh bliadhnaichean le stoirmean dona. Chosg HIAL cuideachd £123,000 air togalach ceannas siubhal-adhair Bharraigh a dhèanamh nas fheàrr, £1.4 millean air raon-itealan Inbhir Nis agus £961,000 airson taxiway Inbhir Nis a leudachadh, a thug a-steach ceangal an raon-itealan gu Pàirc Ghnìomhachais Port-adhair Inbhir Nis ri taobh a' phort-adhair. Thathar a' dol a chleachdadh an airgead-seilbh seo gus an làrach a dhèanamh deiseil airson leasachadh sam bith 'san am ri teachd, agus a' toirt a-steach goireas airson Search and Rescue, a bhios air a ruith le Bristow Helicopters, a' tòiseachadh ann an 2015.

Am bliadhna sa, chosg HIAL £1 millean air ceithir ghoireasan teine ùra airson puirt-adhair Steòrnabhagh agus Beinn na Fadhla. Chaidh na goireasan seo tro dheuchainn chruaidh agus a-nis thathar gan cleachdadh aig na puirt-adhair. Thar ùine, thèid 20 goireasan ùra a chur air bhonn aig puirt-adhair lìonra HIAL, a chosgas £7 millean.

Aithisg am Manaidsear-stiùiridh

Sàbhailteachd
Tha gnìomhachas an adhair-sheòladh gu math pròiseil den reacòrd a th'aca gus an latha an diugh a thaobh sàbhailteachd. Tha HIAL a' cur sàbhailteachd an toiseach. Tha sinn ag obair gu dlùth le companaidhean adhair, Riaghaltas, ar com-pàirteachaidhean ann an ùghdarrasan-ionadail, agus le seirbheisean èiginn airson dèanamh cinnteach gum bi ar puirt-adhair a' ruith gu sèimh, gu h-èifeachdach agus gu cudromach, gu sàbhailteachd.

Seirbhisean chustamairean
Tha am poball a' sùileachadh inbhe àrd aig ar puirt-adhair agus tha HIAL a' cur an gnìomh seirbheis co-sheasmhach, mhath thar ar lìonra. 'S e modail math làdair a th' ann am Port-adhair Inbhir Nis a fhuair iomadh duais, a' toirt a-steach inbhe Hospitality Assured, a tha ag aithneachadh an earbsa a th' aig do sheirbheis chustamair. Chaidh Inbhir Nis cuideachd aithneachadh mar am Port-adhair leis an inbhe as àrd ann an Alba a thaobh tlachd chustamair ann an sgrùdadh le buidheann chustamair Which?

Ann an 2013/14, 'b e HIAL a' chiad bhuidheann puirt-adhair a thug WiFi an asgaidh don luchd-siubhail, agus chuirear fàilte mhòr air a seo.

Leasachadh Slighean
Bha iomadh dhùbhlain ann an 2013/14 a thaobh ceangalan. Anns a' Chèitean 2013, nochd Flybe ais-tharraing air an t-seirbheis Inbhir Nis gu Gatwick Lunnainn, a' gairm cosgaisean àrda aig port-adhair Lunnainn agus am buaidh a th'aig APD air luchd-siubhail. Anns An t-Samhain, nochd a' bhuidheann gu robh iad a' dùnadh iomadh àitean air feadh an Rìoghachd Aonaichte, a' toirt a-steach Inbhir Nis mar phàirt de phròiseas atharrachaidh sa bhuidhean. O cheann seo, tha Flybe air a bhith ag obair trang a' tilleadh air ais gu bhith prothaideach. Nochd a' bhuidheann bho chionn ghoirid seirbheisean ùra bho Inbhir Nis gu Baile Lunnainn agus Bail'-Ath-Cliath, agus dh' àrdaich iad seirbheisean-siubhail gu Manchester. Aig a' cheart àm chur EasyJet air bhog seirbheis dùbailte gach latha bho Inbhir Nis gu Gatwick Lunnainn le na seirbheisean aig àm a tha freagarrach do dhaoine a tha a' siubhail gu Deas airson obair. Ann an àitean sa bhuidheann, chur Loganair air bhog siubhail-adhair ùr Didòmhnaich, bho Ghlaschu gu Ceann Loch Chille Chiarain, agus chaidh leudachadh air comas na seirbheis eadar Glaschu agus Sumburgh, agus Dùn Èideann gu Inbhir Uige Taigh Iain Ghròt, an dèidh iarratas na bu mhotha bho gnìomhachas cumhachd. Cuideachd, fhuair Loganair cùmhnant Public Service Obligation airson seirbheis ùr obrachadh dà uair gach latha bho Dùn Dè gu Stansted Lunnainn thar an ath dà bhliadhna. Tha an t-slighe ùr a' toirt cothrom math do luchd-siubhail a dhol gu Lunnainn airson obair no cur-seachadan agus cothrom nas fharsainn airson ceangalan eadar-nàiseanta bhon cheathramh phort-adhair as trang san RA.

Ceangalan
Rè na bliadhna, bha iomadh ceist ann mu phoileasaidh a' toirt buaidh air gnìomhachas adhair-sheòladh san RA. Thug HIAL sgrùdadh mionaideach do Choimisean na Puirt-adhair, a tha an dràsta a' beachdachadh air feum comas siubhal-adhar san àm ri teachd san RA. Anns an sgrùdadh, tha HIAL a' cur cuideam air na dùbhlain a th' aig puirt-adhair iomallaich, gu h-àraidh an fheadhainn a tha a siubhail eadar na h-eileanan iomallaich far a bheil e riatanach a bhith a' cleachdadh itealan. Bha sinn toilichte nuair a thàinig Sir Howard Davies, Cathraiche a' Choimisean, gu Inbhir Nis airson luchd-ùidhe a choinneachadh. Leanaidh sinn oirnne gabhail an sàs leis a' Choimisean ag aithris riutha de cho cudromach sa tha ar puirt-adhair airson taic a thoirt do ghnìomhachasan ceangal a thoirt dhaibh a dhol thall thairis airson obair.

Ghabh HIAL cuideachd pàirt ann an comhairleachadh Coimisean na h-Eòrpach mu na planaichean airson atharrachadh stiùiridhean cuideachadh bhon stàite Aonadh na h-Eòrpa airson puirt-adhair agus seirbheisean-adhair. Bheachdaich HIAL planaichean Coimisean na h-Eòrpa teòr a chur air cuideachadh bhon stàite do sheirbheisean-adhair airson slighe ùr a chur air bhog, gu dà bhliadhna, mar chothrom call, agus dhearbh HIAL gu soirbheachail airson taic-airgid airson puirt-adhair nas laogha a leasachadh gu trì bliadhna.

Aithisg am Manaidsear-stiùiridh

Coimhearsnachd
Tha puirt-adhair HIAL gu math cudromach do na coimhearsnachdan far a bheil iad a' dèanamh seirbheis. Tha sinn ag aithneachadh gur e taod-teasairginn eaconamach agus sòisealta a th' annta, a bhios a' cruthachadh obair fheumail, aig na puirt-adhair agus aig na tàlaidhean gnìomhachais agus turasachd a th' againn seach gu bheil e comasach siubhal air itealan.

Ann an 2014, chur HIAL air bhonn com-pàirteachas ùr eadar Port-adhair Baile na h-Eaglaise agus Colaiste Arcaibh UHI airson trèanadh sàbhailteachd teine a thoirt don ghnìomhachas muireil. 'S e eisimpleir uabhasach math a tha seo, a' sealltainn ciamar a bhios HIAL ag obair còmhla ri com-pàirteachaidhean ionadail airson ionnsachaidh agus sgilean a leasachadh.

Tha puirt-adhair cuideachd ag obair còmhla ri na coimhearsnachdan aca airson taisbeanaidhean ealain is tachartasan cultarach a chumail. Tha sinn cuideachd co-eòlach air ar cùmhnant a thaobh na Gàidhlig. Dh'fhoillsich sinn a' chiad Plana Gàidhlig ann an 2014, a tha a' toirt cunntas mionaideachd air cleachdadh agus àrdachadh na Gàidhlig nar puirt-adhair. Tha ar luchd-obrach an dràsta a' gabhail pàirt ann am program trèanaidh Gàidhlig.

Tha tòrr den luchd-obrach againn ag obair cruaidh a' togail airgid do charthannais ionadail agus eadar-nàiseanta. Tha sinn gu math pròiseil dhan chuideachadh a tha iad a' toirt do na coimhearsnachdan ionadail.

Ar daoine
Mu dheireadh thall, tha mi ag aontachadh ri faclan ar Cathraiche agus taing cuideachd a' tighinn bhuaimsa gu na ceudan de dhaoine thar na puirt-adhair againn, a gabhail a-steach an luchd-obrach againn fhèin agus eile, a tha dèanamh cinnteach gu bheil na puirt-adhair againn sàbhailte agus ag obair gu h-èifeachdadh agus a' toirt seachad seirbheis uabhasach math dha luchd-siubhail thar Alba roinneil.

Inglis Lyon
Àrd Mhanaidsear

Registered No: SC97647

Strategic Report

The directors submit their strategic report and the Group financial statements for the year ended 31 March 2014.

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.

HIAL drew upon its cash reserves in 2013/14 to help fund additional investment in infrastructure and to support HIAL's operational activities whilst saving the Scottish Government grant funding costs. This resulted in an increase in the Group's operating loss for the year, from £769,000 in 2013 to £3,775,000.

Encouragingly, HIAL's third party revenue increased by £1.75 million during the year, an increase of 9.7% which is a significant achievement.

The underlying performance of the company also showed continued success in reducing operating costs and delivering value for money for the taxpayer.

The parent company loss after taxation amounted to £4,384,000 (2013: loss £1,169,000). The directors recommend that no dividend be paid, leaving the full amount to be retained within reserves.

Review of the business

Subsidies from Scottish Government received for the year ended 31 March 2014 totalled £21,718,000 (2013: £22,040,000) made up of revenue of £14,710,000 (2013: £17,900,000) and capital of £7,008,000 (2013: £4,140,000).

Passenger numbers and aircraft movements across the Group increased by 5.4% and by 1.1% respectively in the year. Excluding Dundee Airport these variances have increased by 7.3% and 0.7% respectively. Freight tonnage decreased by 13%.

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 committee, the 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, competitive, legislative and operational.

- Liquidity risks
  The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continually monitoring forecast and actual cash flows.

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

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

- Operational risks
  The Group manages operational risk through its safety management and risk management systems.

Registered No: SC97647

Strategic Report (cont'd)

Principal risks and uncertainties (cont'd)

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 £26.9 million for the financial year 2014/15 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.

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 2014 the group had an average of 7 days' purchases owed to trade creditors (2013: 13 days).

Capital expenditure

Investment in property, plant and equipment amounted to £16,137,000. Major works undertaken included:

a) At Sumburgh, runway remedial works continued at a cost £9,555,000.

b) At Inverness, a runway refurbishment at a cost of £1,400,000 was carried out and refurbishment to the taxiway leading to the new SAR hanger to be built costing £962,000.

c) At Benbecula, Stornoway, Sumburgh and Wick £1,656,000 has been spent on 6 fire appliances, 4 of which have been delivered and the remaining 2 are work in progress.

d) At Stornoway, £769,000 was spent on replacing the high voltage electricity infrastructure at the airport

Safety and security

The Group is committed to operating safe and secure airports, managing the 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 2013/14 is provided in accordance with the reporting requirements set out in Commission Regulation (EC) No 2096/2005.

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

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

  HIAL successfully implemented the solution relating to radar remediation at Inverness Airport as a result of the DfT decision to sell off a part of the radio spectrum within which radar operates.

  Inverness Airport has also initiated 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 service to meet customer requirements. This includes providing on call facilities for lifeline services including air ambulance and search and rescue. We will investigate and evaluate approach control services with new surveillance technologies as they become available. National Air Traffic Services (NATS) continue to provide the radar approach service to Sumburgh Airport. Stornoway and Wick airports are due to benefit from significant equipment upgrades in their respective towers in 2014/15.

Strategic Report (cont'd)

- Barra, Campbeltown, Islay and Tiree:
  HIAL will continue to provide a basic air traffic service (a flight information service) to meet the requirements of our customers.

  HIAL continues with the development of GNSS (an instrument approach utilising satellite technology) approaches at group airports. This is particularly important at those airports whose main approach aid is a Very High Frequency Omni-directional Radio Range (VOR) since these navigation aids will be withdrawn from service over the next 5 to 15 years. Phase 1 of this project is due for completion in 2014/15 with three airports Barra, Campbeltown and Benbecula, followed by the remaining airports in Phase two.

The HIAL safety management system (SMS) continues to evolve under the auspices of continuous improvement and the business is regularly audited against the SMS. A quality management system has been under construction through 2013/14 which will be rolled out across the group in 2014/15.

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

Human resources

At the year-end the Group employed 583 people, which represents a small increase on the previous year's total (572). However, we now employ 34 individuals on a relief basis, a 26% increase from last year (27). Therefore, over the last year there was only actually an increase of 3 employees employed on full or part-time contracts. Management of staffing levels continues to be a continuous process, with each vacancy scrutinised to ensure we work as efficiently and cost effectively as possible. However, given that operational staffing levels are regulated our overall staffing numbers have remained relatively stable.

Turnover has generally continued to be at a moderate level with a total of 51 individuals leaving the group which is a slight decrease on the 53 leavers last year. Of these, 37 resigned, 7 retired, 6 were dismissed and we had 1 death in service. The majority of our turnover (37 individuals) worked within our Security teams. We also created 22 new posts including the role of Airport Security Manager, 6 Ab Initio ATCO positions and a number of casual security positions. Most new posts did not lead to an increase in complement; they largely involved revision to existing structures.

As a result of this increased turnover and internal staff moves, this year has seen a significant rise in the volume of recruitment undertaken by the HR team with a total of 74 recruitment exercises were undertaken - an increase of almost 34% on last year. Of these 74 recruitment exercises, 50 were advertised both internally and externally, with most posts attracting a reasonable volume of suitable candidates.

This level of turnover appears to be indicative of the current employment market however we continue to find attracting and retaining suitably qualified Air Traffic Control Officers (ATCOs) a challenge. This is due in part to our remote locations which can be a long journey away from existing friends and family for potential recruits. In addition, (with the exception of Inverness) our airports do not use Radar and therefore many air traffic college graduates do not have the qualifications we require. We have also found that individuals see a job at small regional airports like ours as a career stepping stone on their way to working at larger airports.

These factors combined are increasingly making attracting and retaining suitable candidates challenging. We identified that recruiting unqualified local individuals with the desire and capability to become ATCOs, and providing them with the necessary specialist training may be a potential solution to this issue. This year therefore saw us launch a recruitment campaign for Ab Initio ATCOs, open to both external and internal candidates, at 5 of our locations, which attracted a great deal of interest. Through specialist aptitude testing and interviewing, 6 appointments were made and these employees are currently undertaking the relevant training courses at an approved training provider. Alongside this we are currently involved in the development of an apprenticeship scheme in Air Traffic Control which we hope will assist in providing a long term solution.

This year also saw us undertake a systemic review of recruitment, retention, project management and learning and development – initially focused on ATS but also taking a wider view across the organisation. From this, a number of work-streams were initiated with opportunities for improvement identified. This has led to a number of projects including a review of recruitment, selection and training within ATS which is currently underway.

Strategic Report (cont'd)

Organisational development

Organisational Development continues to be a big focus for the group, and we continue to strive to achieve excellence through improved performance and decision-making. Communication to staff flows through the management structure of the group on a regular basis and given the remote nature of our aerodromes remains challenging. We run a staff Newsletter which provides a mechanism for sharing photographs, events, good news stories, achievements etc. It also highlights those that have won 'Employee of the Month' or made suggestions through our 'Staff Suggestion Scheme'. Alongside this, the Managing Director regularly publishes a blog to keep all staff informed of developments and business news across the group.

We remain Investors in People accredited, and work towards reaccreditation is on-going and remains a continuing priority. The "Continuous Improvement Programme" set up previously continues with work undertaken at a number of locations. We hope to place an increased focus on these groups in the coming months.

We continue to focus on Corporate Social Responsibility and a great deal of work is taking place around the group to ensure we give something back to our local communities, and with employees also undertaking voluntary work internationally. We have recently developed a Volunteering Policy which we hope to launch soon in order to support our local communities and help them to become positive, vibrant places for all to live and work in. In addition, we want to aid personal development through people being given the opportunity to learn new practical skills; and through using the competencies learned at work, such as interpersonal skills, team working and flexibility, in a volunteering situation.

Employment policies

We have a framework of employment policies to ensure that we operate in a positive and supportive culture which we continue to review on a regular basis to ensure they meet or exceed current employment legislation and best practise. Our continuing aim is for our employment policies to ensure that equality of opportunity underpins all that we do and that through flexible working and family friendly policies we are able to balance our employees' needs with those of the group. All policies are subject to regular review.

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

Learning and development

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

We developed a Learning and Development Framework in 2012, and launched a bespoke Dynamic Learning Environment (DLE) last year which has in excess of 50 courses on it. Course development continues as new learning needs are identified, and further work is ongoing to review existing materials and amend in line with user feedback received. In addition, we are working with our IT colleagues on reporting mechanisms and a dashboard reporting system is in development for managers to see their team's progress at a glance. E-learning has also been incorporated into the monthly training plans for all Airport Fire Service Supervisory staff under their Maintenance of Competence Scheme alongside all other mandatory training. Our Operations team successfully gained CAA approval for this newly developed Supervisory Scheme, resulting in us being able to undertake significantly more training on station rather than using external training providers resulting in more tailored training.

Given our geographic spread, e-learning enables us to reach more people, and faster, on a broader range of subjects than traditional classroom delivery, and allows individuals to have greater control and flexibility of when they undertake learning. It also reduces travel needs and the associated time, travel and environmental costs. However, we also recognise that some learning and development is best suited to a classroom environment and therefore have also run a number of line manager development classroom courses over the course of the year, with more scheduled for the coming year.

Registered No: SC97647

Strategic Report (cont'd)

Going concern

The parent company sets an annual budget which aims to balance income, expenditure and operating subsidy provisions set by government. Future operational and legislative requirements are addressed in a ten year corporate plan which includes provision for revenue and capital items such as major repairs to runways or new or replacement equipment. The operating subsidy budget for the year to 31 March 2014 were set at up to £22.9 million (including up to £17.9 million of revenue subsidy) and this was drawn down during the year. The operating subsidy budget has been set at up to £26.9 million (including up to £19.9m of revenue subsidy) for the year ending 31 March 2015. This is considered by the directors to be adequate to sustain the Group as a going concern having considered the 12 months ahead from date of approval.

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

As a result of the IAS 19 pension liability the group has a net deficit of £10.250m and the company has a net deficit of £8.478m at 31 March 2014. 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
13 August 2014

Registered No: SC97647

Directors' Report

The directors submit their report and the group financial statements for the year ended 31 March 2014.

Directors

The directors who served during the year to 31 March 2014 and subsequently are: -

Grenville Johnston	Chairman	
Inglis Lyon	Managing director	
Michael Cantlay	Director	(Resigned 28 February 2014)
Andrew Castell	Director	(Resigned 28 February 2014)
Gillian Bruton	Director	(Appointed 9 August 2013)
Lorna Jack-Hooijenga	Director	(Appointed 1 March 2014)
James McLaughlin	Director	(Appointed 1 March 2014)
David Savile	Director	
Timothy Whittome	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

The auditor, Ernst & Young LLP resigned during the year, and Scott Moncrieff were subsequently appointed. 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 on page 1. 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
13 August 2014

Registered No: SC97647

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 company is a body sponsored by the Scottish Government, guidance contained in the SPFM is applicable.

Purpose of the system of internal control

The system of internal control is designed to mitigate rather than eliminate the risk of failure to achieve the 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 company's aims, objectives and policies, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The process within the organisation accords with the SPFM and has been in place for the year ended 31 March 2014 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.

Governance Statement (cont'd)

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.

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 whom are appointed by Scottish Ministers. The board meets on a six weekly cycle and has adopted a policy of requiring all significant matters to be referred to the board for decision unless these are specifically within delegated limits given to the managing director.

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

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

Registered No: SC97647

Governance Statement (cont'd)

Board committees
During the year the audit committee was composed of three non-executive directors: Mr A Castell, Dr M Cantlay and Mr T Whittome. Mr A Castell and Dr M Cantlay resigned on 28 February 2014 and were replaced by Ms L Jack-Hooijenga and Mr J McLaughlin on 1 March 2014. The committee, chaired by Mr A Castell and subsequently replaced by Ms L Jack-Hooijenga as chairman, works to terms of reference agreed by the board and meets on a regular basis. The managing director and the company secretary are invited to attend meetings. The committee receives regular reports from both the internal and external auditors and makes periodic reports concerning internal control to the board. The committee reviews and comments to the board as to corporate governance compliance and, through internal audit, the adequacy of risk management arrangements.

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

Operational control
Each of the airports under the 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.

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

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

Inglis Lyon
Managing director
13 August 2014

Registered No: SC97647

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. 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 accounting 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 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.

Registered No: SC97647

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 2014 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.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and 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 web-site at www.frc.org.uk/apb/scope/private.cfm.

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 2014 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.

Registered No: SC97647

Independent auditor's report to the members of Highlands and Islands Airports Limited

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Emphasis of matter – going concern
We draw attention to the matter referred to in Note 2.1b of the financial statements under the paragraph heading going concern. Our opinion is not qualified in respect of this matter.

Nick Bennett

Nick Bennet (Senior statutory auditor)
for and behalf of Scott Moncrieff, Statutory Auditor
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

13 August 2014

Registered No: SC97647

Group income statement
for the year ended 31 March 2014

	Notes	*2014* *£000s*	*2013* **restated* *£000s*
Revenue	*3*	19,740	17,989
Cost of sales		(34,864)	(33,905)
Gross Loss		(15,124)	(15,916)
Administrative expenses		(3,548)	(3,323)
Other operating income		-	5
Other income	*4*	14,902	18,328
Other Gains & losses	*6*	(5)	137
Operating (loss)	*5*	(3,775)	(769)
Share of operating (loss) in joint venture	*12*	(82)	(87)
Finance revenue	*8*	125	128
Other finance (cost)/revenue – pensions	*22*	(786)	(544)
(Loss) from continuing operations before tax		(4,518)	(1,272)
Tax credit	*9*	-	-
(Loss) from continuing operations		(4,518)	(1,272)

All activities relate to continuing operations.

*For details of prior year adjustments see note 29

Registered No: SC97647

Group statement of comprehensive income

for the year ended 31 March 2014

	Notes	*2014* *£000s*	*2013* **restated* *£000s*
(Loss) for the year		**(4,518)**	**(1,272)**
Other comprehensive income:			
Actuarial gains/(losses)	*22*	**5,632**	**(6,599)**
Tax on items relating to components of other comprehensive income		**-**	**-**
Other comprehensive income/(expense) for the year, net of tax		**5,632**	**(6,599)**
Total comprehensive income/(expense) for the year		**1,114**	**(7,871)**

Company statement of comprehensive income

for the year ended 31 March 2014

	Notes	*2014* *£000s*	*2013* **restated* *£000s*
(Loss) for the year		**(4,384)**	**(1,169)**
Other comprehensive income:			
Actuarial gains/(losses)	*22*	**6,274**	**(6,981)**
Tax on items relating to components of other comprehensive income		**-**	**-**
Other comprehensive income/(expense) for the year, net of tax		**6,274**	**(6,981)**
Total comprehensive income/(expense) for the year		**1,890**	**(8,150)**

* For details of prior year adjustments see note 29

Registered No: SC97647

Group statement of changes in equity
for the year ended 31 March 2014

	Equity share capital £000s	Retained Earnings *restated £000s	Total Equity *restated £000s
At 1 April 2012	50	(3,543)	(3,493)
(Loss) in year attributable to equity holders	-	(1,272)	(1,272)
Other comprehensive (expense)	-	(6,599)	(6,599)
At 31 March 2013	50	(11,414)	(11,364)

	Equity share capital £000s	Retained Earnings £000s	Total Equity £000s
At 1 April 2013	50	(11,414)	(11,364)
(Loss) in year attributable to equity holders	-	(4,518)	(4,518)
Other comprehensive income	-	5,632	5,632
At 31 March 2014	50	(10,300)	(10,250)

Company statement of changes in equity
for the year ended 31 March 2014

	Equity share capital £000s	Retained Earnings *restated £000s	Total Equity *restated £000s
At 1 April 2012	50	(2,268)	(2,218)
(Loss) in year attributable to equity holders	-	(1,169)	(1,169)
Other comprehensive (expense)	-	(6,981)	(6,981)
At 31 March 2013	50	(10,418)	(10,368)

	Equity share capital £000s	Retained earnings £000s	Total equity £000s
At 1 April 2013	50	(10,418)	(10,368)
(Loss) in year attributable to equity holders	-	(4,384)	(4,384)
Other comprehensive income	-	6,274	6,274
At 31 March 2014	50	(8,528)	(8,478)

* For details of prior year adjustments see note 29

Registered No: SC97647

Group Balance Sheet

As at 31 March 2014

	Notes	*2014*	*2013*
			***restated**
		£000s	***£000s***
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	90,292	81,477
Investment properties	*11*	1,209	1,229
Investments accounted for using the equity method	*12*	365	443
Intangible assets	*13*	984	1,286
Long term loan to joint venture	*14*	1,292	1,201
		94,142	85,636
Current assets			
Trade and other receivables	*15*	3,547	3,832
Inventories	*16*	56	54
Cash and cash equivalents	*17*	2,781	9,968
		6,384	13,854
Total assets		100,526	99,490
LIABILITIES			
Current liabilities			
Trade and other payables	*18*	(9,528)	(5,097)*
		(9,528)	(5,097)
Non-current liabilities			
Provisions for liabilities and charges	*9(d)*	-	-
Defined benefit pension scheme deficit	*22*	(11,199)	(15,745)
Deferred subsidies	*19*	(90,049)	(90,012)*
		(101,248)	(105,757)
Total liabilities		(110,776)	(110,854)
NET (LIABILITIES)		(10,250)	(11,364)
EQUITY			
Ordinary shares	*23*	50	50
Retained earnings		(10,300)	(11,414)
		(10,250)	(11,364)

The financial statements were authorised for issue by the Board of Directors on 13 August 2014 and signed on its behalf by:

Grenville Johnston CA
Chairman

Inglis Lyon
Managing director
13 August 2014

* For details of prior year adjustments see note 29

Registered No: SC97647

Company balance sheet

As at 31 March 2014

	Notes	*2014*	*2013* **restated*
		£000s	*£000s*
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	77,464	67,348
Investment properties	*11*	979	999
Investments	*12*	2,341	2,337
Long term loan to joint venture	*14*	1,292	1,201
		82,076	71,885
Current assets			
Trade and other receivables	*15*	3,404	3,657
Inventories	*16*	24	20
Cash and cash equivalents	*17*	2,709	e 14.
		6,137	13,539
Total assets		88,213	85,424
LIABILITIES			
Current liabilities			
Trade and other payables	*18*	(9,145)	(4,665)*
		(9,145)	(4,665)*
Non-current liabilities			
Deferred tax liability	*9(d)*	-	-
Defined benefit pension scheme deficit	*22*	(10,540)	(15,734)
Deferred subsidies	*19*	(76,659)	(75,046)*
Other payables	*19*	(347)	(347)*
		(87,546)	(91,127)
Total liabilities		(96,691)	(95,792)
NET (LIABILITIES)		(8,478)	(10,368)
EQUITY			
Ordinary shares	*23*	50	50
Retained earnings		(8,528)	(10,418)
		(8,478)	(10,368)

The financial statements were authorised for issue by the Board of Directors on 13 August 2014 and signed on its behalf by:

Grenville Johnston CA
Chairman

Inglis Lyon
Managing director
13 August 2014

* For details of prior year adjustments see note 29

Registered No: SC97647

Group cash flow statement

For the year ended 31 March 2014

	Notes	*2014* *£000s*	*2013* *£000s*
Cash flows from operating activities			
Cash generated from/(used by) operations	*24*	1,749	(2,076)
Purchase of property, plant and equipment		(16,137)	(7,237)
Proceeds from sale of property, plant and equipment		22	99
Receipt of capital subsidy		7,186	4,160
Tax paid		-	-
Net cash flow from operating activities		(7,180)	(5,054)
Cash flows from investing activities			
Increase in loan to joint venture		(33)	-
Net cash flow from investing activities		(33)	-
Cash flows from financing activities			
Interest paid		-	-
Interest received		26	34
Net cash flow from financing activities		26	34
Decrease in cash and cash equivalents		(7,187)	(5,020)
Cash and cash equivalents at the beginning of the period		9,968	14,988
Cash and cash equivalents at the end of the period		2,781	9,968

Registered No: SC97647

Notes to the Financial Statements

1 Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of Highlands and Islands Airport Limited and its subsidiaries (the Group) for the year ended 31 March 2014 were authorised for issue by the board of directors on 13 August 2014 and the balance sheet was signed on the Board's behalf by Grenville Johnston and Inglis Lyon.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2014.

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. 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 deficit of £10.250m and the company has a net deficit of £8.478m at 31 March 2014. 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 2014.
Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.
The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

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

Notes to the Financial Statements

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.

(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.

Notes to the Financial Statements

2.3 Significant accounting policies (cont'd)

(d) Pensions *(continued)*

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.

(e) Property, plant and equipment

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

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

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

Notes to the Financial Statements

2.3 Significant accounting policies (cont'd)

(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.

(h) Goodwill

Goodwill is initially measured at cost, being the excess of the cost of a business combination over the Group's share in the net fair value of the acquirees identifiable assets, liabilities and contingent liabilities.
If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income statement.

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

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

(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.

Notes to the Financial Statements

2.3 Significant accounting policies (cont'd)

(j) Investment properties

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

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

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

(k) Intangible assets

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

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

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

(l) Impairment of non-financial assets

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

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

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

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.

Notes to the Financial Statements

2.3 Significant accounting policies (cont'd)

(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.

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.

Notes to the Financial Statements

2.3 Significant accounting policies (cont'd)

(r) Impairment of financial assets

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

Assets carried at amortised cost

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

2.4 Judgements and key sources of estimation uncertainty

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

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

Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the Income statement. The Group engaged independent valuation specialists to determine fair value as at 31 March 2014. 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.

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 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 19	Defined Benefit Schemes
IAS 32	Financial Instruments: Presentation
IFRS 7	Financial Instruments: Disclosures
IFRS 13	Fair Value Measurement

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 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint arrangements
IFRS 12	Disclosure of Interests in Other Entities

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 2014. 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.

Notes to the Financial Statements

3. Revenue

Revenue recognised in the Income statement is analysed as follows:

	2014 £000s	2013 £000s
Revenue from airport charges	16,487	15,055
Concession revenues	1,671	1,643
Rental income	1,582	1,291
Total revenue	19,740	17,989

4. Other income

	2014 £000s	2013 £000s
Government grants & services rendered	14,902	18,328
	14,902	18,328

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 2014 and 2013 was as follows:

		2014 £000s	2013 £000s
Revenue			
Scottish Government	Operating subsidy	14,710	17,900
Scottish Government	Air Discount Scheme	129	149
Scottish Enterprise	Route Development Fund	-	-
HIEIEH	Marketing assistance	57	220
The Highland Council	Marketing assistance	-	23
HITRANS	Marketing assistance	-	36
Miscellaneous	Miscellaneous	6	-
		14,902	18,328
Capital			
Scottish Government	Operating subsidy	7,008	4,140
Dundee City Council	Reallocation of mast	-	-
		7,008	4,140
		21,910	22,468

Notes to the Financial Statements

5. Group operating (loss)

This is stated after charging / (crediting):

	2014	*2013*
	£000s	*£000s*
Decrease/(increase) in fair value of investment properties (note 11)	**20**	**(92)**
Depreciation of property, plant and equipment (note 10)	**7,305**	**7,446**
Amortisation of intangible assets (note 13)	**302**	**302**
	7,607	**7,748**
Deferred subsidies release (note 19)	**(7,139)**	**(7,606)**
Operating lease payments	**44**	**44**
Auditor's remuneration – audit services	**29**	**29**
Auditor's remuneration – technical advice	**-**	**-**
	29	**29**

6. Other Gains & Losses

	2014	**2013**
	£000s	**£000s**
Gain on disposals of property, plant and equipment	**15**	**45**
(Decrease)/increase in fair value of investment properties (note 11)	**(20)**	**92**
	(5)	**137**

7. Employee benefit expense

	2014	*2013*
	£000s	*£000s*
Wages and salaries	**17,639**	**17,136**
Social security costs	**1,486**	**1,438**
Pension costs	**3,207**	**3,539**
Other staff costs	**721**	**566**
	23,053	**22,679**

The pension costs are in respect of defined benefit schemes.

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

	2014	*2013*
	No.	*No.*
Administration	**51**	**50**
Air traffic services	**74**	**71**
Airport fire service	**189**	**191**
Apron operations	**8**	**8**
Engineering	**21**	**21**
Management	**35**	**37**
Security	**203**	**199**
	581	**577**

Notes to the Financial Statements

7. Employee benefit expense (cont'd)

Directors' remuneration	*2014*	*2013*
	£000s	*£000s*
Emoluments	167	163
Pension contributions	22	22

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

	2014	*2013*
	No.	*No.*
£0 to £5,000	3	-
£5,001 to £10,000	4	4
£20,001 to £25,000	1	1
£135,001 to £140,000	1	1

The emoluments of the chairman were £21,880 (2013: £21,880) excluding pension contributions of £Nil (2013: £Nil) and of the highest paid director, Inglis Lyon, were £116,648, (2013: £112,144) excluding pension contributions of £22,303 (2013: £22,303).

Caledonian Maritime Assets Limited charged the group £35k (2013: £nil) 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

	2014	*2013*
	£000s	*£000s*
Bank interest receivable	26	34
Other finance income	99	94
	125	128

9. Taxation

(a) Tax charged in the Income statement

	2014	*2013*
	£000s	*£000s*
Current income tax:		
Current income tax (credit)	-	-
Amounts overprovided in previous years	-	-
Total current income tax	-	-

Notes to the Financial Statements

9. Taxation (cont'd)

(a) Tax charged in the Income statement

	2014 £000s	2013 £000s
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	-	-
The tax credit in the Income statement is disclosed as follows:		
Income tax credit on continuing operations	-	-

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

	2014 £000s	2013 £000s
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 credit in the Income statement for the year is lower than the standard rate of corporation tax in the United Kingdom of 23% (2013: 24%). The differences are reconciled below:

	2014 £000s	2013 £000s
Accounting (loss) before income tax	(4,471)	(440)
Accounting (loss) multiplied by the UK standard rate of tax of 23% (2013: 24%)	(1,028)	(106)
Expenses not deductible for tax purposes	3	-
Tax losses carried forward	686	7
Government grants exempt from tax	(1,696)	(1,833)
Pension provisions not tax deductible	239	66
Interest on redeemable shares	(21)	(20)
Adjustment relating to sale of assets	-	(33)
Adjustment relating to tax on UK GAAP	(3)	(12)
Net depreciation in excess of capital allowances	1,801	1,910
Share of JV not tax deductible	19	21
Deferred tax movement per note 9 (d)	-	-
Total tax credit reported in the Income statement	-	-

Notes to the Financial Statements

9. Taxation (cont'd)

(d) Deferred tax

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

	2014	*2013*
	£000s	*£000s*
Deferred tax liability		
Accelerated capital allowances	(3,090)	(4,012)
Revaluations of investment properties	(217)	(255)
	(3,307)	(4,267)
Deferred tax asset		
Pensions	2,240	3,621
Tax losses carried forward	2,263	1,923
Deferred revenue	2,498	3,231
Deferred tax not recognised	(3,694)	(4,508)
	3,307	4,267
Disclosed on the Group and Company balance sheet		
Deferred tax (liability)	-	-

A deferred tax asset has not been recognised in respect of temporary differences related to historical trading losses incurred by the Group, which will be recovered only if the Group begins to make significant taxable profits. There is insufficient evidence that this asset will be recovered to allow its recognition in the financial statements.

Notes to the Financial Statements

10. Property, plant and equipment

Group

	Land and buildings freehold £000s	*Plant and equipment £000s*	*Construction in progress £000s*	*Total £000s*
Cost:				
At 1 April 2012	42,564	109,850	483	152,897
Additions	1,465	5,454	1,499	8,418
Disposals	(10)	(838)	-	(848)
Transfers	29	425	(454)	-
At 31 March 2013	**44,048**	**114,891**	**1,528**	**160,467**
Depreciation and impairment:				
At 1 April 2012	(24,270)	(48,048)	-	(72,318)
Provided during the year	(1,591)	(5,855)	-	(7,446)
Disposals	1	773	-	774
At 31 March 2013	**(25,860)**	**(53,130)**	**-**	**78,990**
Net book value:				
At 31 March 2013	**18,188**	**61,761**	**1,528**	**81,477**
At 31 March 2012	18,294	61,802	483	80,579

	Land and buildings freehold £000s	*Plant and equipment £000s*	*Construction in progress £000s*	*Total £000s*
Cost:				
At 1 April 2013	44,048	114,891	1,528	160,467
Additions	315	2,147	13,675	16,137
Disposals	-	(146)	-	(146)
Transfers	45	333	(378)	-
At 31 March 2014	**44,408**	**117,225**	**14,825**	**176,458**
Depreciation and impairment:				
At 1 April 2013	(25,860)	(53,130)	-	(78,990)
Provided during the year	(1,596)	(5,709)	-	(7,305)
Disposals	-	129	-	129
At 31 March 2014	**(27,456)**	**(58,710)**	**-**	**(86,166)**
Net book value:				
At 31 March 2014	**16,952**	**58,515**	**14,825**	**90,292**
At 31 March 2013	18,188	61,761	1,528	81,477

Notes to the Financial Statements

10. Property, plant and equipment (cont'd)

Company

	Land and buildings freehold £000s	*Plant and equipment £000s*	*Construction in progress £000s*	*Total £000s*
Cost:				
At 1 April 2012	38,822	90,310	480	129,612
Additions	1,464	5,143	1,483	8,090
Disposals	(10)	(799)	-	(809)
Transfers	29	420	(449)	-
At 31 March 2013	**40,305**	**95,074**	**1,514**	**136,893**
Depreciation and impairment:				
At 1 April 2012	(22,311)	(42,084)	-	(64,395)
Provided during the year	(1,360)	(4,537)	-	(5,897)
Disposals	1	746	-	747
At 31 March 2013	**(23,670)**	**(45,875)**	**-**	**(69,545)**
Net book value:				
At 31 March 2013	**16,635**	**49,199**	**1,514**	**67,348**
At 31 March 2012	16,511	48,226	480	65,217

	Land and buildings freehold £000s	*Plant and equipment £000s*	*Construction in progress £000s*	*Total £000s*
Cost:				
At 1 April 2013	40,305	95,074	1,514	136,893
Additions	315	2,061	13,665	16,041
Disposals	-	(133)	-	(133)
Transfers	45	319	(364)	-
At 31 March 2014	**40,665**	**97,321**	**14,815**	**152,801**
Depreciation and impairment:				
At 1 April 2013	(23,670)	(45,875)	-	(69,545)
Provided during the year	(1,365)	(4,554)	-	(5,919)
Disposals	-	127	-	127
At 31 March 2014	**(25,035)**	**(50,302)**	**-**	**(75,337)**
Net book value:				
At 31 March 2014	**15,630**	**47,019**	**14,815**	**77,464**
At 31 March 2013	16,635	49,199	1,514	67,348

Notes to the Financial Statements

11. Investment property

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

	Group 2014 £000s	*Company 2014 £000s*	*Group 2013 £000s*	*Company 2013 £000s*
Valuation at 1 April	**1,229**	999	**1,137**	907
Additions	-	-	-	-
Disposals	-	-	-	-
Fair value adjustment	**(20)**	(20)	**92**	92
Valuation as at 31 March	**1,209**	979	**1,229**	999

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

The valuations were performed by Jones Lang LaSalle as at 31 March 2014, 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:

	2014	*2013*
Yields (%)	**8.5% - 12%**	8.5% - 12%
Inflation rate (%)	**n/a**	n/a
Long term vacancy rate (%)	**n/a**	n/a
Long term growth in real rental rates (%)	**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.

Notes to the Financial Statements

12. Investments (cont'd)

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

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

	2014 £000s	2013 £000s
Share of the joint venture's balance sheet:		
Non-current assets	**365**	443
Current assets	**-**	-
Current liabilities	**-**	-
Non-current liabilities	**-**	-
Share of other reserves	**-**	-
Share of net assets	**365**	**443**

	2014 £000s	2013 £000s
Share of the joint venture's results:		
Revenue	**-**	-
Net operating expenses	**(82)**	(87)
(Loss) before taxation	**(82)**	(87)
Tax expense	**-**	-
(Loss) after taxation	**(82)**	(87)

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

(b) Details of Group undertakings

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital at 31 March 2013 and 2014 are as follows:

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

Notes to the Financial Statements

12. Investments (cont'd)

Company

	Subsidiary undertakings £000s	*Joint ventures £000s*	*Total £000s*
Cost:			
At 1 April 2012	407	1,974	2,381
Acquisitions	-	-	-
Additions	-	6	6
At 31 March 2013	407	1,980	2,387
Depreciation and impairment:			
At 1 April 2012	(50)	-	(50)
Amortisation during the year	-	-	-
Impairment charges	-	-	-
At 31 March 2013	(50)	-	(50)
Net book value			
At 31 March 2013	357	1,980	2,337
At 31 March 2012	357	1,974	2,331

	Subsidiary undertakings £000s	*Joint ventures £000s*	*Total £000s*
Cost:			
At 1 April 2013	407	1,980	2,387
Acquisitions	-	-	-
Additions	-	4	4
At 31 March 2014	407	1,984	2,391
Depreciation and impairment:			
At 1 April 2013	(50)	-	(50)
Amortisation during the year	-	-	-
Impairment charges	-	-	-
At 31 March 2014	(50)	-	(50)
Net book value			
At 31 March 2014	357	1,984	2,341
At 31 March 2013	357	1,980	2,337

Notes to the Financial Statements

13. Intangible fixed assets

Group

	Other intangibles £000s	*Goodwill £000s*	*Total £000s*
Cost:			
At 1 April 2012	3,071	22,107	25,178
Acquisitions	-	-	-
Additions	-	-	-
At 31 March 2013	3,071	22,107	25,178
Amortisation and impairment:			
At 1 April 2012	(1,852)	(21,738)	(23,590)
Amortisation during the year	(302)	-	(302)
Impairment charges	-	-	-
At 31 March 2013	(2,154)	(21,738)	(23,892)
Net book value			
At 31 March 2013	917	369	1,286
At 31 March 2012	1,219	369	1,588

	Other intangibles £000s	*Goodwill £000s*	*Total £000s*
Cost:			
At 1 April 2013	3,071	22,107	25,178
Acquisitions	-	-	-
Additions	-	-	-
At 31 March 2014	3,071	22,107	25,178
Amortisation and impairment:			
At 1 April 2013	(2,154)	(21,738)	(23,892)
Amortisation during the year	(302)	-	(302)
Impairment charges	-	-	-
At 31 March 2014	(2,456)	(21,738)	(24,194)
Net book value			
At 31 March 2014	615	369	984
At 31 March 2013	917	369	1,286

Other 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.

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

Other intangibles - 10 years in relation to the concession income agreement and 60yrs in relation to the lease contract

Notes to the Financial Statements

14. Loans to joint ventures

Group

	2014 £000s	2013 £000s
Loans to joint ventures	1,292	1,201
Total non-current financial assets	1,292	1,201

Company

	2014 £000s	2013 £000s
Loans to joint ventures	1,292	1,201
Total non-current financial assets	1,292	1,201

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 IABPs 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.

15. Trade and other receivables

Group

	2014 £000s	2013 £000s
Trade receivables	1,878	2,109
Less: provision for impairment of receivables	(100)	(125)
Trade receivables net of impairment	1,778	1,984
Receivables from joint ventures	228	195
Prepayments and other accrued income	1,084	1,581
Other receivables	457	72
	3,547	3,832

Out of the carrying amount of trade receivables of £1,878,000, £1,026,795 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 2014, trade receivables at nominal value of £100,000 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:

Notes to the Financial Statements

15. Trade and other receivables (cont'd)

Group

	2014 £000s	2013 £000s
At 1 April	(125)	(71)
Impairment losses recognised on trade receivables	-	(54)
Amounts written off as uncollectable	25	-
Receivables collected previously impaired	-	-
At 31 March	(100)	(125)

	2014 £000s	2013 £000s
Neither past due nor impaired	1,224	1,421
Past due but not impaired		
< 30 days	465	440
30 – 60 days	30	51
60 – 90 days	4	25
90 – 120 days	1	23
> 120 days	54	24
	1,778	1,984

As of 31 March 2014, trade receivables of £1,878,124 were considered for impairment and of which an amount of £100,000 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.

	2014 £000s	2013 £000s
Ageing of impaired trade receivables:		
Up to 3 months	-	-
Between 3 and 6 months	2	5
More than 6 months	98	120
At 31 March	100	125

Notes to the Financial Statements

15. Trade and other receivables (continued)

Company

	2014 £000s	2013 £000s
Trade receivables	1,794	2,004
Less: provision for impairment of receivables	(97)	(122)
Trade receivables net of impairment	1,697	1,882
Receivables from subsidiaries	3	3
Receivables from joint ventures	228	195
Prepayments and other accrued income	1,038	1,536
Other receivables	438	41
	3,404	3,657

Out of the carrying amount of trade receivables of £1,794,000, £1,026,795 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 2014, 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:

	2014 £000s	2013 £000s
At 1 April	(122)	(68)
Impairment losses recognised on trade receivables	-	(54)
Amounts written off as uncollectable	25	-
Receivables collected previously impaired	-	-
At 31 March	(97)	(122)

	2014 £000s	2013 £000s
Neither past due nor impaired	1,162	1,353
Past due but not impaired		
< 30 days	456	423
30 – 60 days	21	34
60 – 90 days	3	25
90 – 120 days	1	23
> 120 days	54	24
	1,697	1,882

As of 31 March 2014, trade receivables of £1,794,000 (2013: £2,004,000) 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.

	2014 £000s	2013 £000s
Ageing of impaired trade receivables:		
Up to 3 months	-	-
Between 3 and 6 months	-	5
More than 6 months	97	117
At 31 March	97	122

Notes to the Financial Statements

16. Inventories

	Group 2014 £000s	Company 2014 £000s	Group 2013 £000s	Company 2013 £000s
Aviation fuel	36	4	37	3
Whisky shop stock	20	20	17	17
	56	24	54	20

17. Cash and cash equivalents

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

Group

	2014 £000s	2013 £000s
Cash at bank	2,781	9,968
Short term deposits	-	-
	2,781	9,968

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

Company

	2014 £000s	2013 £000s
Cash at bank	2,709	9,862
Short term deposits	-	-
	2,709	9,862

18. Trade and other payables

Group

	2014 £000s	2013 *restated £000s
Trade payables	908	157
Other taxes and social security	494	495
Other payables	7,846	4,238
Deferred income	280	207*
	9,528	5,097

Company

	2014 £000s	2013 *restated £000s
Trade payables	907	154
Amounts owed to other Group companies	1,449	877
Other taxes and social security	328	328
Other payables	6,222	3,112*
Deferred income	239	194*
	9,145	4,665

* For details of prior year adjustments see note 29.

Notes to the Financial Statements

19. Deferred subsidies

Group

	2014 £000s	2013 *restated £000s
Balance at 1 April	90,012	93,177*
Subsidies receivable	7,186	4,460*
Release to Income statement	(7,139)	(7,606)
Release against asset disposals	(10)	(19)
Balance at 31 March	90,049	90,012

Company

	2014 £000s	2013 *restated £000s
Balance at 1 April	75,046	76,544*
Subsidies receivable	7,102	4,311*
Release to Income statement	(5,489)	(5,798)
Release against asset disposals	-	(11)
Balance at 31 March	76,659	75,046

* For details of prior year adjustments see note 29

20. Other payables

Company

	2014 £000s	2013 *restated £000s
Other payables	347	347*

* For details of prior year adjustments see note 29

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.

Notes to the Financial Statements

21. Financial instruments (cont'd)

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 2014 and 31 March 2013 based on contractual undiscounted payments:

	On demand £000s	*Less than 3 months £000s*	*3 to 12 months £000s*	*1 to 5 years £000s*	*Over 5 years £000s*	*Total £000s*
Trade and other payables						
At 31 March 2014	-	**9,528**	-	-	-	**9,528**
At 31 March 2013	-	**5,097**	-	-	-	**5,097**

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**	
	2014 £000s	**2013 £000s**	**2014 £000s**	**2013 £000s**
Financial assets				
Loans and receivables	1,292	1,201	1,292	1,201
Trade and other receivables	3,319	3,637	3,319	3,637
Loans receivable	228	195	228	195
Financial liabilities				
Trade and other payables	9,528	5,097	9,528	5,097

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's employees are members of two final salary defined benefit pension schemes – the Highlands and Islands Airports Pension Scheme (HPS) and the Tayside Superannuation Fund (TSF). Group member numbers of each fund at 31 March 2014 were 468 (2013: 438) and 53 (2013: 53). Both schemes are operated and located in the United Kingdom and require contributions to be made to separately administered funds.

The values of the schemes obligations have been determined by a qualified actuary based on actuarial valuations as at 31 December 2013 for the HPS and 31 March 2011 for the TSF, both updated to the balance sheet date.

The actuarial valuation of HPS as at 31 December 2013 illustrated that the scheme was in surplus by £1.1m.

Notes to the Financial Statements

22. Pensions (cont'd)

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.

An amended IAS19 was issued on 16 June 2011. The change to the standard means that in the year of adoption of the revised standard the expected return on assets will be calculated at the discount rate instead of at an expected rate based on actual plan assets held. The group and company has adopted this change in this financial year and as a consequence the prior year's figures have been re-calculated on this amended basis. The impact of this change on prior year's figures is shown at note 29.

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

At 31 March 2014

	HPS	*TSF*	*Total*
	£000s	*£000s*	*£000s*
Scheme assets at fair value			
Equities	52,520	3,211	55,731
Gilts	8,753	380	9,133
Other bonds	25,384	169	25,553
Property	-	380	380
Cash	875	85	960
Fair value of scheme assets	87,532	4,225	91,757
Present value of scheme liabilities	(98,072)	(4,884)	(102,956)
Defined benefit pension scheme deficit	(10,540)	(659)	(11,199)

At 31 March 2013

	HPS	*TSF*	*Total*
	£000s	*£000s*	*£000s*
Scheme assets at fair value			
Equities	47,267	2,673	49,940
Gilts	8,863	264	9,127
Other bonds	25,275	414	25,689
Property	-	339	339
Cash	656	75	731
Fair value of scheme assets	82,061	3,765	85,826
Present value of scheme liabilities	(97,795)	(3,776)	(101,571)
Defined benefit pension scheme deficit	(15,734)	(11)	(15,745)

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 2014

	HPS	*TSF*	*Total*
	£000s	*£000s*	*£000s*
Recognised in Income statement			
Current service cost	2,963	212	3,175
Past service cost	-	-	-
Recognised in arriving at operating loss	2,963	212	3,175
Administration cost	119	2	121
Interest cost on scheme assets	(3,869)	(181)	(4,050)
Interest cost on obligations	4,538	177	4,715
Other finance cost/(revenue)	788	(2)	786

Notes to the Financial Statements

22. Pensions (cont'd)

Year ended 31 March 2014

Taken to the Statement of comprehensive income

	HPS *£000s*	*TSF* *£000s*	*Total* *£000s*
Return on plan assets in excess of interest	(664)	106	(558)
Change in financial assumptions	(1,210)	(627)	(1,837)
Change in demographic assumptions	160	(121)	39
Experience gain on liabilities	7,988	-	7,988
Actuarial gains/(losses) recognised in the Statement of Comprehensive Income	6,274	(642)	5,632

Year ended 31 March 2013 - restated

	HPS *£000s*	*TSF* *£000s*	*Total* *£000s*
Recognised in Income statement			
Current service cost	3,213	212	3,425
Past service cost	-	-	-
Recognised in arriving at operating loss	3,213	212	3,425
Administration cost	206	2	208
Interest cost on scheme assets	(3,651)	(143)	(3,794)
Interest cost on obligations	3,974	156	4,130
Other finance cost/(revenue)	529	(15)	544

Taken to the Statement of comprehensive income

	HPS *£000s*	*TSF* *£000s*	*Total* *£000s*
Return on plan assets in excess of interest	5,809	384	6,193
Change in financial assumptions	(12,800)	(2)	(12,802)
Change in demographic assumptions	-	-	-
Experience gain on liabilities	10	-	10
Actuarial gain/(losses) recognised in the Statement of Comprehensive Income	(6,981)	382	(6,599)

Notes to the Financial Statements

22. Pensions (cont'd)

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

	HPS	TSF	Total
	£000s	£000s	£000s
Defined benefit obligation at 1 April 2012 - restated	78,250	3,372	81,622
Current service cost	3,213	212	3,425
Past service cost	-	-	-
Interest cost	3,974	156	4,130
Benefits paid	(1,410)	(47)	(1,457)
Contributions by scheme participants	772	81	853
Change in financial assumptions	12,800	2	12,802
Experience gain on liabilities	(10)	-	(10)
Change to demographic assumptions	-	-	-
Administration costs	206	-	206
Defined benefit obligation at 31 March 2013	97,795	3,776	101,571

	HPS	TSF	Total
	£000s	£000s	£000s
Defined benefit obligation at 1 April 2013	97,795	3,776	101,571
Current service cost	2,963	212	3,175
Past service cost	-	-	-
Interest cost	4,538	177	4,715
Benefits paid	(1,067)	(133)	(1,200)
Contributions by scheme participants	781	104	885
Experience (gain)/loss on defined benefit obligation	(7,988)	-	(7,988)
Changes to demographic assumptions	(160)	121	(39)
Changes to financial assumptions	1,210	627	1,837
Defined benefit obligation at 31 March 2014	98,072	4,884	102,956

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

	HPS	TSF	Total
	£000s	£000s	£000s
Fair value of scheme assets at 1 April 2012 - restated	70,585	2,998	73,583
Interest on scheme assets	3,651	143	3,794
Contributions by employer	2,654	208	2,862
Contributions by scheme participants	772	81	853
Benefits paid	(1,410)	(47)	(1,457)
Administration cost	-	(2)	(2)
Return on plan assets less interest	5,809	384	6,193
Fair value of scheme assets at 31 March 2013	82,061	3,765	85,826

	HPS	TSF	Total
	£000s	£000s	£000s
Fair value of scheme assets at 1 April 2013	82,061	3,765	85,826
Interest on scheme assets	3,869	181	4,050
Contributions by employer	2,671	204	2,875
Contributions by scheme participants	781	104	885
Benefits paid	(1,067)	(133)	(1,200)
Administration cost	(119)	(2)	(121)
Return on plan assets less interest	(664)	106	(558)
Fair value of scheme assets at 31 March 2014	87,532	4,225	91,757

The Group expects to contribute £2,991,000 to its defined benefit pension plans in 2014/15.

Notes to the Financial Statements

22. Pensions (cont'd)

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

		HPS		***TSF***
	2014	***2013***	***2014***	***2013***
	(%)	***(%)***	***(%)***	***(%)***
Main assumptions:				
Rate of salary increases	**3.60**	**3.60**	**3.70**	**3.40**
Rate of increase in pensions in payment*	**3.60**	**3.60**	**2.90**	**2.60**
Discount rate	**4.60**	**4.65**	**4.60**	**4.70**
RPI Inflation	**3.60**	**3.60**	**3.70**	**3.40**
Post-retirement mortality rate (in years)				
Current pensioners at 65 – Male	**22.6**	**22.6**	**21.0**	**20.6**
Current pensioners at 65 – Female	**24.7**	**24.7**	**23.3**	**22.9**
Future pensioners at 65 – Male	**24.9**	**24.9**	**23.2**	**21.9**
Future pensioners at 65 – Female	**27.1**	**27.1**	**25.6**	**24.5**

*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 3.6% for RPI and 2.6% for CPI.

Discount rate
The discount rate on the HPS and the TSF scheme is the yield on the Merrill Lynch Non gilts AA Over 15 year Index.

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 2013 CMI projection model with a long term improvement rate of 1.5% per annum and the projection is made based on the individual year of birth of each member.

For the TSF, the S1PA table has been adjusted by 120% (to reflect the particular characteristics of the scheme) making allowance for future improvement to be in line with the 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.

Notes to the Financial Statements

22. Pensions (cont'd)

Sensitivities

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

Change in assumption	*Change mortality assumption to S2PA with CMI 2013 projection improvement by 1 year*	*Reduce discount rate by 0.50%*	*Increase inflation by 0.50%*
	£000s	*£000s*	*£000s*
Fair value of scheme assets	87,532	87,532	87,532
Present value of defined benefit obligation	(100,593)	(111,341)	(110,736)
Defined benefit pension scheme deficit	(13,061)	(23,809)	(23,204)

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

Change in assumption	*+ 0.1%*	*- 0.1%*	*+ 1 year*	*- 1 year*
	£000s	*£000s*	*£000s*	*£000s*
Present value of defined benefit obligation	4,728	5,045	4,706	5,063
Projected service cost	249	268	249	268

The projected pension expense for the year ending 31 March 2015 is as follows:

	HPS	*TSF*	*Total*
	£000s	*£000s*	*£000s*
Current service cost	3,071	259	3,330
Net Interest in defined benefit liability	497	26	523
Administration Expenses	202	2	204
Total	3,770	287	4,057

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

	2014	*2013*	*2012*	*2011*	*2010*
	£000s	*£000s*	*£000s*	*£000s*	*£000s*
HPS					
Fair value of scheme assets	87,532	82,061	70,585	66,052	59,641
Present value of defined benefit obligation	(98,072)	(97,795)	(78,250)	(68,457)	(64,470)
(Deficit) / surplus	(10,540)	(15,734)	(7,665)	(2,405)	(4,829)
Experience adjustment on plan liabilities	(160)	-	2,807	(3,453)	22,421
Experience adjustments on plan assets	(664)	5,809	(2,259)	(246)	14,210

	2014	*2013*	*2012*	*2011*	*2010*
	£000s	*£000s*	*£000s*	*£000s*	*£000s*
TSF					
Defined benefit obligation	(4,884)	(3,765)	(3,372)	(3,015)	(3,261)
Plan assets	4,225	3,776	2,998	2,680	2,287
(Deficit)	(659)	(11)	(374)	(335)	(974)
Experience adjustment on plan liabilities	121	-	504	-	-
Experience adjustments on plan assets	106	384	(201)	15	460

Notes to the Financial Statements

23. Share capital

	Group and Company 2014 £000s	Group and Company 2013 £000s
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.

24. Cash generated from operations

	2014 £000s	2013 *restated £000s
Operating (loss)	(3,775)	(769)
Amortisation of intangibles	302	302
Depreciation of property, plant and equipment	7,305	7,446
(Increase)/Decrease in inventories	(2)	6
Decrease/(Increase) in trade and other receivables	318	(185)
Increase/(Decrease) in trade and other payables	4,431	(1,717)
Movement in deferred subsidies	(7,139)	(7,606)
Fair value movement on investment properties	20	(92)
Difference between pension contributions and charges	304	563
(Gain) on disposal of property, plant and equipment	(15)	(24)
Cash Generated from/(used in) operations	1,749	(2,076)

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:

	2014 £000s	2013 £000s
Not later than one year	44	44
After one year but not more than 5 years	165	167
Later than 5 years	-	120
	209	331

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 £000s	Purchases from related party £000s	Amounts owed by related party £000s	Amounts owed to related party £000s
Related party					
Joint ventures:-					
Inverness Airport Business Park Limited	2014	93	-	228	-
	2013	2	-	195	-
In relation to key management personnel:-					
Caledonian Air Surveys Ltd	2014	3	-	-	-
Director: T Whittome	2014	1	-	-	-
Caledonian Maritime Assets Limited	2014	-	42	-	4
Visit Scotland*	2014	-	20	-	2
Intercompany Balances					
DAL	*2014*	*732*	-	-	*694*
	2013	*929*	-	-	*180*
AMSL	*2014*	-	*3,990*	-	*408*
	2013	-	*3,708*	-	*350*
IATL	*2014*	-	-	-	*347*
	2013	-	-	-	*347*

*The director M Cantlay ceased to be a related party when he resigned as a director on 28 Feb 2014.

£391,753 was due to HIAL from Dundee Airport limited and disclosed within Accruals & Deferred Income (2013; £348,499)

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

Loans to related party

		Amount owed by related party £000s
Joint ventures		
Inverness Airport Business Park Limited	2014	1,292
	2013	1,201

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.

Notes to the Financial Statements

27. Commitments and contingencies

Capital Commitments

At 31 March 2014, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £12,565,000 for the Group (2013: £7,415,500) and £12,546,000 for the Company (2013: £7,330,500).

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 2014. 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 2013 and 31 March 2014.

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

29. Prior year adjustments

IAS 19 – Employee Benefits

An amended IAS19 was issued on 16 June 2011. The change to the standard means that in the year of adoption of the revised standard the expected return on assets will be calculated at the discount rate instead of at an expected rate based on actual plan assets held. The group and company has adopted this change in this financial year and as a consequence the prior year's figures have been re-calculated on this amended basis. The impact of this change on prior year's figures is shown below:-

Statement of Comprehensive Income - Group

	Loss for the financial year £000s	***Other comprehensive income £000s***	***Total comprehensive income for year £000s***
Reported at 31 March 2013	**(440)**	**(7,431)**	**(7,871)**
Reclassification of expected return on assets	**(832)**	**832**	**-**
	(1,272)	**(6,599)**	**-**

In relation to the restated loss for the financial year, the adjustment for £832,000 impacted other finance revenue reported at 31 March 2013 of (£415,000), now restated as an expense of £544,000, and current service costs reported at 31 March 2013 of £3,552,000 now restated as £3,425,000.

In relation to the restated other comprehensive income for the financial year, the adjustment for £832,000 impacted actuarial losses recognised in the pension scheme at 31 March 2013 of (£7,431,000), now restated as (£6,599,000).

Notes to the Financial Statements

29. Prior year adjustments (cont'd)

Statement of Comprehensive Income - Company

	Loss for the financial year £000s	***Other comprehensive income £000s***	***Total comprehensive income for year £000s***
Reported at 31 March 2013	(387)	(7,763)	(8,150)
Reclassification on expected return of assets	(782)	782	-
	(1,169)	(6,981)	(8,150)

In relation to the restated loss for the financial year, the adjustment for £782,000 impacted other finance revenue reported at 31 March 2013 of (£380,000), now restated as an expense of £529,000 and current service costs reported at 31 March 2013 of £3,340,000 now restated as £3,213,000.

In relation to the restated other comprehensive income for the financial year, the adjustment for £782,000 impacted actuarial losses recognised in the pension scheme at 31 March 2013 of (£7,763,000), now restated as (£6,981,000).

Reclassification of liability

A liability for £347,000 due to Inverness Airport Business Park Limited disclosed within the company accounts in 2013 as due within one year, has been reclassified as due in greater than one year. See notes 18 and 20.

Reallocation of deferred subsidies

Balances have been revised following the reallocation of grants received that were incorrectly included within deferred income. £384k was reallocated from deferred income in both the company and group accounts, trade and other payables to deferred subsidies. See notes 18 and 19.