Highlands and Islands
Airports Limited
Puirt-adhair na Gàidhealtachd
is nan Eilean Earranta

Annual Report and Accounts to 31 March 2023

SG/2023/269

Contents

About Us

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

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

Working with our partners and stakeholders, we are committed to supporting the essential socio-economic role of aviation in Scotland by maintaining and developing our airports and the vital services and connections they provide for some of our country's more remote communities.

Our Mission, Ambition and Values

Our mission is to enable air connectivity and support lifeline services for the communities we serve through a network of safe and sustainable airports.

This is reinforced by our ambition to become a net zero regional airport group.

Our Values

Our values underpin everything we do and how we do it. They shape our culture and define who we are; our expectations of each other; how we interact with each other and how we interact with our customers, communities, and other stakeholders. A strong values-driven culture that supports the delivery of our strategic priorities is key to our long-term success.

We work collaboratively to build trust in our expertise; we do not work in silos of self-interest.

We always listen and respond to customers and colleagues; we do not ignore the needs of others.

We always look to make things better in the future; we do not accept the status quo.

We always take responsibility for our actions; we do not expect others to cover for us.

We always try to deliver the very best we can; we do not and will not accept anything less.

Foreword from the Chair

The past year has been one of recalibration and steady progress for HIAL as we continue to move away from post-pandemic recovery and towards a focus on bolstering our services for the communities we serve.

HIAL has once again delivered vital services that support essential air connectivity to a huge geographic swathe of the country. This is in no small part due to the dedication and flexibility of our colleagues across the Company and the professional services provided at each of our airports.

While the past financial year has provided ample scope for optimism it has not come without its challenges. Passenger numbers were just over 1.4 million across all 11 of our airports at the end of March 2023. This is an increase of almost 39% on passenger figures for the 2021/22 financial year, and now sits at almost 85% of the pre-pandemic passenger levels for 2019/20.

The continued funding and support from Transport Scotland has delivered an extensive capital programme with over £19.5 million invested to modernise and improve airport infrastructure and sustaining the longevity of our airports. The capital programme was spread across all airports and HIAL headquarters at Inverness and ranged from the completion of coastal erosion works at Stornoway, works on the runway resurfacing and rehabilitation projects at Sumburgh and Islay, to the development of new systems to support our Finance, HR, and operational functions. Highlights from some of the capital projects undertaken are included later in this report.

During the year, HIAL received a public subsidy of £55,869,000 including revenue funding of £37,882,000 and capital funding of £17,986,500 which was supplemented by £1,567,036 of loan funding for our commercial activities.

In an ever-changing and unpredictable world, HIAL was impacted in the same way as many other businesses have been with considerable economic and financial pressures leading to us having to re-calibrate our goals and reappraise our strategic priorities and spending decisions.

As part of that review, in considering several options to help address the fiscal position, the HIAL board took the decision to bring the Air Traffic Management Strategy (ATMS) project to a halt in August 2022. This decision to wind up the project was made against a background of rapidly increasing costs, the effects of the global pandemic and the Scottish Government's spending review, all of which will continue to influence our strategic priorities and spending decisions for the foreseeable future.

Throughout the year we have continued our regular engagement programme with colleagues and stakeholders. The Board took the opportunity to meet with colleagues and stakeholders when visiting a number of airports for Board meetings throughout the year.

Our programme to consult with our people, partners and stakeholders on our revised strategic priorities and objectives has been one of our most successful to date. The engagement, input and suggestions on how we could deliver our goals was remarkable.

Following that extensive programme of consultation, we published our revised Strategic Plan for 2023-28 on 22 June 2023 following a delay due to the change in government administration.

With the significant funding challenges we will continue to face for the foreseeable future, our strategic focus for the next five years is to operate as efficiently and effectively as possible, while at the same time maintaining the high level of service that HIAL's customers expect.

Sustainability remains a key focus and we are committed to a strategic programme of sustainable low-carbon development for our airports over the next 10 years. In addition, we continue to deliver a programme of initiatives to de-carbonise our airport operations and infrastructure.

There have been some significant changes in the Board and senior management team at HIAL. Jamie Manson joined HIAL in October 2022 as Finance Director and an executive member of the HIAL Board, replacing Johanna Wallace who left the organisation in May 2022.

More recently, Inglis Lyon stepped down from his role as Managing Director on 30 June 2023. Stewart Adams joined us as Interim Chief Executive Officer (CEO) on 14 June 2023 and the Board was delighted to have secured someone of Stewart's calibre and experience to help us remain focused on our strategic priorities and ensure regulatory compliance while we complete the recruitment of a permanent CEO.

There was also a change at Board level when Eric Hollanders' appointment term as a Non-Executive Director Board member ended in November 2022 and he returned to Europe. I thank Eric for his commitment and service to the Board over the previous three years.

A recurring theme throughout the year was the need to work in partnership for the benefit of local communities and effective operations for all organisations. This remains a key priority for us, and it is important, now more than ever, that we build on our strong partnerships to help inform our spending priorities and future plans.

Our colleagues, partners and stakeholders fully appreciate the challenges ahead, and we have no doubt that by working together with Transport Scotland, our local communities, airlines and partner organisations, we will meet those challenges head on and continue to deliver aviation services that we can all be proud of.

We look forward to working with colleagues and all our stakeholders as we drive to deliver our strategic goals.

Lorna Jack
Chair

Statement from the CEO

I was delighted to be appointed as Interim Chief Executive Officer of HIAL on 14 June 2023. My predecessor, Inglis Lyon, was Managing Director for 18 years before stepping down from the role on 30 June 2023.

While I was not with the Company during the 2022/23 financial reporting period, I have been with HIAL almost five months at the time of signing these accounts.

My focus for this period of transition while a permanent successor is appointed is to lead the Senior Management Team and help deliver the strategic priorities which are laid out in HIAL's revised Strategic Plan for 2023 - 2028.

With over 40 years' experience in the aviation industry, I know only too well the vital role that HIAL's 11 airports play. With limited surface travel alternatives, the air connectivity that the airports and our partner airlines provide to keep local communities connected is fundamental.

As the Chair has already mentioned, my focus will be on ensuring our airports remain safe and are regulatory compliant whilst operating as efficiently as possible. As an organisation, we will look to increase our commercial revenue and explore new revenue streams, as well as scrutinising business and operating costs to identify potential cost reductions.

During my time with Loganair, I became very familiar with all the HIAL airports. Each one is different, but all are renowned for offering a professional, but personal experience for all customers and I have seen that dedication from the other side of the fence since joining HIAL.

It is clear that everyone, from frontline operations to support teams, is passionate about what they do and go that extra mile to help provide a service that meets the needs of their local communities.

There will be challenging times ahead, and our overriding objective moving forward is to operate as efficiently and effectively as possible, while at the same time maintaining the high level of service that HIAL's customers expect.

I would like to thank colleagues for their welcome and positive input during my time with HIAL.

Stewart Adams
Chief Executive Officer

Strategic Report

The directors submit their Strategic Report and the Group financial statements for the year ended 31 March 2023.

Principal activity

The Group's principal activity during the year continued to be the provision, safeguarding and development of 11 airports across the Highlands and Islands region and Dundee for use by commercial and operators of air services. The Group generates commercial revenue from the levying of airport charges, which partially offset the Group's operating costs.

Results and dividends

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

The parent company loss after taxation from continuing operations amounted to £663,000 (2022: £1,108,000). The directors recommend that no dividend be paid.

Review of the business

Public subsidies received for the year ended 31 March 2023 totalled £55,869,000 (2022: £75,866,000) comprising of £37,882,000 (2022: £39,668,000) in revenue subsidy and £17,986,500 (2022: £36,198,000) in capital subsidy. The Scottish Government provided capital loan funding of £1,567,036. Also received during the year was £123,000 (2022: £135,000) from Transport Scotland as payment for services rendered for the Airport Discount Scheme.

Capital expenditure during the year amounted to £19,553,537 (2022: £36,501,000) funded by the capital subsidy and loan funding noted above.

Passenger numbers across the Group increased by 39% year-on-year, although still roughly 15% lower than in 2019/20. Aircraft movements reduced by 2% year-on-year.

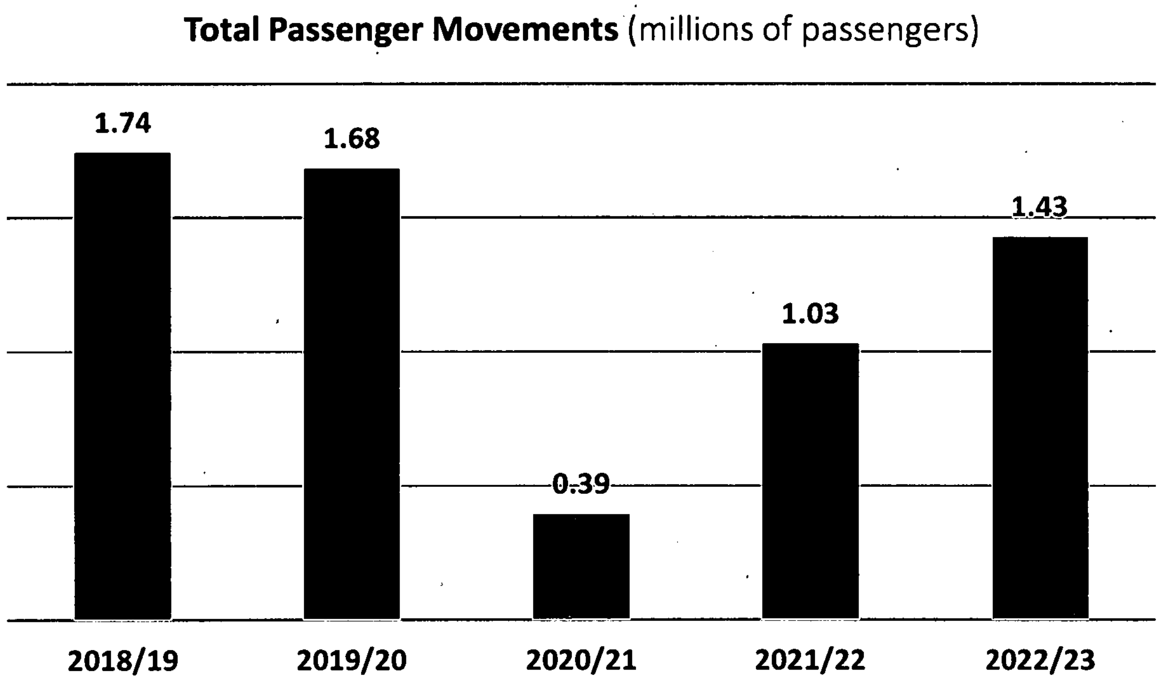
The formal valuation of the Highlands and Islands Airports Pension Scheme concluded by the statutory deadline of 31 March 2023. The Scottish Ministers, as shareholder of the Company, provided a guarantee in relation to the Group's liabilities to the pensions scheme, and additional funding of £5.0m for the sole purpose of reducing the deficit on the Highlands and Islands Airports Pension Scheme. The Group expects to benefit from a strengthened employer covenant with the Scheme as a result, which will, in turn, enable reduced employer pension contributions from April 2024.

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.

Annual Statistics

Airport	Passengers 2022/23	Passengers 2021/22	% Change		Aircraft Movements 2022/23	Aircraft Movements 2021/22	% Change	
Barra	12,928	11,814	▲	9%	1,283	1,253	▲	2%
Benbecula	31,372	28,152	▲	11%	2,739	3,016	▼	-9%
Campbeltown	6,712	4,767	▲	41%	1,425	1,218	▲	17%
Dundee	41,127	25,828	▲	59%	25,270	27,652	▼	-9%
Inverness	749,908	458,976	▲	63%	26,931	28,520	▼	-6%
Islay	27,740	17,365	▲	60%	2,460	2,609	▼	-6%
Kirkwall	127,915	112,931	▲	13%	11,818	11,887	▼	-1%
Stornoway	103,856	80,463	▲	29%	7,616	7,604	◀	0%
Sumburgh	304,836	275,618	▲	11%	19,372	18,151	▲	7%
Tiree	11,600	10,057	▲	15%	1,625	1,539	▲	6%
Wick	9,182	2,495	▲	268%	3,349	2,846	▲	18%
Total	**1,427,176**	**1,028,466**	▲	**39%**	**103,888**	**106,295**	▼	**-2%**



Principal risks and uncertainties

The Group recognises the importance of identifying and managing a wide range of risks faced by the business. We have established a robust risk management framework to identify and assess the likelihood and consequences of risks and to manage the actions necessary to mitigate their impact. Our risk identification processes seek to identify risks from both a top-down strategic perspective and a bottom-up tactical perspective. Operationally, the executive team are responsible for ensuring that the Group has appropriate procedures, resources and the skills required to identify and manage risks effectively. To this end, a Risk Oversight Group, which is accountable to the Board through the Audit Committee, conducts regular reviews of risks facing the Group. Risk treatment plans are developed in response to any identified risks that exceed the Group's risk appetite. The Audit Committee and the Board review the Group's risks at each meeting.

The principal risks and uncertainties facing the Group are broadly grouped as strategic, financial, business, legislative and operational.

- **Strategic Risks**

  The Group has established a formal process for capturing and managing strategic and sensitive risks within the business. This now forms a standing agenda item for Board and Audit Committee scrutiny.

- **Financial Risks**

  The Group is exposed to a variety of financial risks which are regularly monitored and reviewed by the executive team, Audit Committee and Board. As the Group relies on public funds to maintain operations across its 11 airports, it is susceptible to changes in public funding, which is influenced by the wider economic climate and decisions made at the UK and Scottish Government level. Indicative revenue and capital budget allocations point towards a reduction in the funding for HIAL over the next three years which presents a future funding challenge for the Group. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continually monitoring actual and forecasted cash flows.

- **Commercial Risks**

  Commercial revenue generated by the Group is mainly 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 the Group's income and associated expenditure.

- **Legislative risks**

  Airport operations across the Group are regulated by the Health and Safety Executive, UK Civil Aviation Authority (CAA) and the Scottish Environmental Protection Agency (SEPA). Security standards are set by the Department for Transport and inspected by the CAA. These bodies regularly review and update their standards and requirements and it is unlikely that the regulatory burden will reduce.

- **Operational risks**

  The Group manages operational risk through its safety management and risk management systems. The Group's overarching strategy and direction is determined by the Board and informed by Scottish Government policy.

HIAL's Strategic Objectives

HIAL's Strategy and Covid-19 Recovery Plan for 2021 to 2026 was published on 1 February 2021. This set the company's goals and strategic priorities identified to help develop a carbon-neutral regional airport network, while at the same time continuing to support economic prosperity and deliver social benefit for communities throughout the Highlands and Islands.

In response to the publication of the Scottish Government's Resource Spending Review in May 2022, the Board took the decision to review and recalibrate HIAL's strategic priorities to focus on core functions – to enable and maintain essential air connectivity now and into the future. The revised Strategic Plan covers the period 2023 to 2028 and supersedes HIAL's Strategy and Covid-19 Recovery Plan for 2021 to 2026.

HIAL's Corporate Operating plan set the key priority areas for delivery between 1 April 2022 and 31 March 2023 to meet its strategic priorities:

- Environmental Care and Excellence
- Delivering World Class Customer Service and Operations
- Route Development and Improving Connectivity
- Sustainable Financial Growth
- Delivering Digital Transformation
- Building Successful Partnerships
- Developing our People

Some of the actions in the operating plan are significant in scale and as such delivery will span more than one financial year.

Progress reports were prepared at the end of each quarter of the year to provide performance information and effectively manage our activities throughout the reporting year.

The quarterly progress reports were monitored by the Senior Management Team to allow effective performance scrutiny and management planning. The reports were shared with the HIAL Board to allow strategic oversight of the key priority areas they had approved for the year.

At the end of the reporting period, three of the 21 objectives were reviewed, and the decision was made not to progress them. Seven were completed and five objectives that span into 2023/24 remain on target. Six objectives were behind target on 31 March 2023 but continue to be actioned with the Senior Team and Board receiving regular updates on progress.

What we have achieved

Key:

✘ Objective stopped

✔ Objective completed

✔ Objective on target

✔ Objective partly completed

Environmental Care and Excellence

We have: ✔ Finalised HIAL's Sustainability Strategy and published it in English and Gaelic in January 2023.

We will finalise our 10-year sustainability road map to ensure the successful delivery of the Strategy.

✓ We will continue the scoping works to determine the range of renewable energy opportunities across the HIAL estate, including wind, solar and rainwater harvesting projects.

This will be an objective in our Corporate Operating Plan for 2023/24.

✓ Undertaken climate risk assessments and building decarbonisation studies.

The Net Zero Roadmap has been completed and will be overlaid with the 10 year sustainability Roadmap to deliver the Sustainability Strategy.

Delivering World Class Customer Service and Operations

We have:

✗ Decided to scale back our air traffic modernisation plans following the Scottish Government's Spending Review published on 31/5/2022 and internal spending review which highlighted the impact of the considerable gap between the funding available and our operational and strategic plans.

In August 2022, in considering several options to help address the current fiscal position, the HIAL Board made the decision to wind up the ATMS Board Sub-Committee.

This was the final action from the Board to close the original ATMS programme following the change in strategic direction agreed in January 2022.

✓ Introduced an overarching governance structure for major projects and introduced four new programme boards.

Throughout the year the capital project plan was closely monitored with regular re-phasing and budget reforecasting to ensure capital programmes were appropriately prioritised.

The capital project plan includes multi-year projects. Due to slippage experienced in the year, we are continuing to progress a number of capital projects in 2023/24. Up to £1.2m of our 2023/24 capital budget has been allocated to facilitate completion of these projects.

✓ Developed real-time data reporting to enhance our decision-making processes.

We have introduced further KPIs and dashboard for safety and risk management and have developed a suite of data dashboards for Customer Feedback across the organisation.

✗ Made the decision not to explore quality assurance accreditation (ISO 9001) or environmental accreditation (ISO 14001), following our internal spending review.

Route Development and Improving Connectivity

We have:

✓ Exceeded our target level of reaching 75% of pre-covid passenger levels.

Passenger levels across all HIAL airports reached 85% of pre-covid levels on 31 March 2023. Airline income for the same period exceeded our expectations by 26%.

✓ Undertook a review of services offered to airline customers across our airports. This review will be used to inform future commercial contracts for aeronautical and non-aeronautical revenue.

Sustainable Financial Growth

We have:

✓ A number of commercial projects underway to optimise revenue streams, including an expansion of car hire facilities at Inverness Airport and an expansion of airport café & retail facilities at Barra Airport.

We have extended the timeline to finalise the Commercial Strategy to allow for the appointment of a Commercial Director.

✗ Made the decision to pause the business process optimisation project that was linked to potential future quality assurance accreditation. This is in line with the decision not to explore quality assurance accreditation (ISO 9001) or environmental accreditation (ISO 14001).

✓ We have developed a strategic framework for possible commercial pathways to optimise the emerging opportunities from the Sustainable Aviation Test Environment (SATE) programme.

The SATE commercial exploitation plan will be a pillar of HIAL's Commercial Strategy.

Delivering Digital Transformation

We have:

✓ Captured additional data and utilised business analytics to improve decision making and performance measurement. Improvements have been made to the Customer Feedback system to provide additional data for management reporting.

Electronic passenger systems are operational at Inverness, Stornoway, Kirkwall and Sumburgh airports, and the data extraction from these systems is underway.

✓ Introduced and developed smart technology to allow us to better manage our airport operational environments.

We have issued smart mobile devices at a number of airports as part of our programme to digitise security and ground handling activities.

The project to introduce smart technology, utilising the Internet of Things (IoT) principles, is now complete. For example, sensors will allow the monitoring of waste sent to landfill and for recycling; and will allow us to monitor electricity usage providing real-time reporting for management of energy usage.

✓ Progressed our programme Plato to digitise manual documents, templates, and forms, and provide devices to support digital processes.

We have created a single document library to allow the controlled transfer of HIAL documents into the one area for access to company-wide documentation.

We have started a project to introduce an in-house electronic system for timesheet recording and reporting across the organisation.

✓ Delivered phase two of the HR System Development project. This included the introduction of a new recruitment platform, which is now operational.

It was decided that the e-learning platform will be a separate project which will be delivered on a different system platform. This will be an objective in the HR departmental operating plan for 2023/24.

Building Successful Partnerships

We have:

✓ Delivered a three -day executive communications and engagement course for Airport Managers, Heads of Departments, and local team managers.

An intensive media training course was delivered for members of Senior Management Team, Airport General Managers, and other nominated Managers.

✓ Started our review of formal community engagement forums for all HIAL airports to ensure they meet the needs of individual airports and community groups moving forward.

A programme of Airport Consultative Committee meetings has been agreed at Inverness, Wick and Stornoway, and meetings have taken place.

A trial of suitable forums with the potential for scaling up or down to tailor to individual airport communities will take place during 2023/24.

Developing our People

We have:

✓ Reached agreement with all three recognised trade unions (Prospect, PCS and Unite) on the annual pay award and agreed that a road map for the delivery of pay reform will be developed in 2023/24 within available funding.

This objective to progress the modernisation and simplification of pay and allowances will be carried forward to the Corporate Operating Plan for 2023/24.

✓ Supported a culture of diversity and inclusion through the development of an Equality, Diversity, and Inclusion Strategy.

Had the Equality, Diversity and Inclusion Action Plan approved by the People Committee in March 2023.

✓ Produced a Health, Safety and Wellbeing Strategy. This has been published on the HIAL website in both English and Gaelic.

The Health, Safety and Wellbeing Action Plan has been developed and actions are being progressed.

Investing in our airports

During the year, we continued to maintain and invest in our airports as we geared our operations for a return to normal service.

During 2022/23 we invested £19.5m in our airports and head office in key capital projects. Examples of some of the works progressed or completed are included below:

- **Barra Airport** – expansion of the terminal building, vehicle store fit out, riverbank defence works to protect the runway.
- **Benbecula Airport** – terminal heating works, streetlights and footpath works, apron floodlighting, investment in security search area and testing equipment.
- **Campbeltown Airport** – rehabilitation works on the runway shoulder, de-icer storage facilities and sensor alarms.
- **Dundee Airport** – investment in security testing equipment, new aircraft recovery equipment trailers, and card access control system.
- **Inverness Airport** – surveillance equipment, airport pavement refurbishment, passenger electronic gates, security testing equipment, vehicle fleet replacements, terminal alterations and surface water drainage works.
- **Islay Airport** – runway resurfacing works, de-icer storage facilities and sensor alarms, body scanner for security search area.
- **Kirkwall Airport** – Security testing equipment and body scanner for security search area, self-service check in, runway navigation aids, new appliance bay doors and electric security gate.
- **Stornoway Airport** – coastal erosion prevention works, runway approach lighting, aerodrome ground lighting, security testing equipment and body scanner for security search area, vehicle fleet replacements.
- **Sumburgh Airport** – runway rehabilitation works, new fast rescue craft and trailer, vehicle fleet replacements, security testing equipment, and de-icer storage facilities.
- **Tiree Airport** – installation of portable LED runway lighting, de-icer storage facilities and sensor alarms.
- **Wick John O'Groats Airport** – vehicle fleet replacement, security testing equipment, airport water quality research and drainage system works.
- **Head Office** – Investment in business transformation systems, ICT server upgrades and replacements, flight information display system development.

Team HIAL

Our people lie at the heart of HIAL and are responsible for ensuring we operate a safe, welcoming airport network to the very highest professional standards.

During 2022/23, our focus was on creating a positive working environment focused on the wellbeing of our people and an effective work-life balance. We published our Health and Wellbeing Strategy with the aim of improving the health, safety and wellbeing of our colleagues, and encourage healthy lifestyles. The strategy covers physical, mental and social health and recognises the important role our values play in contributing to overall wellbeing at work.

We introduced a Staff Recognition Policy following feedback from our staff survey in 2022 which focused on reward and recognition. The survey highlighted that managers would like the opportunity to recommend people for recognition awards, with a range of criteria that should be recognised.

A staff benefit and discount scheme was introduced as a direct result of feedback. MyLifestyle was introduced in partnership with Edenred, giving colleagues access to hundreds of discounts on everyday essentials.

During the year, we extended our successful modern apprentice scheme with a new cohort of graduate apprentices. We now have seven colleagues undertaking this personal and professional development at different stages in the programme.

A training programme was established to equip and empower colleagues at a local level to undertake effective communication and engagement on behalf of HIAL.

Senior managers and local management teams took the opportunity to develop their communication and engagement skills by completing a three-day executive communications and engagement course, with positive feedback received from all those managers who attended.

In addition, an intensive media training course was completed with members of SMT and airport general managers attending.

We published the final video in our suite highlighting the dedication of our teams across all airports and Head Office. In the video our colleagues take the opportunity to let us know what it is like working for HIAL.

HIAL continues to be:

- A Disability Confident Employer
- A Living Wage Accredited Employer
- A Carer Positive Employer

HIAL in the community

HIAL's airports are very much community airports, and our aim is to utilise our assets, including buildings and land to the benefit of our local communities.

Throughout 2022/23 our teams did what they could to support our local communities and passengers and we have included a selection of the different ways our local teams got involved.

Tiree Airport held an Emergency Services Open Day on 22 July 2022. The team welcomed visitors to the airport for an action-packed day of demonstrations and activities with the ambulance, coastguard, fire, and police services. The event was very well attended and raised £4,000 for the Scottish Charity Air Ambulance. **[Collage of images from open day]**

In February 2023, the Tiree team supported a very different community event, hosting two showings of aviation action film Top Gun: Maverick. This was in collaboration with Screen Tiree, a local group who promote arts in the area and have also done some local filming for various projects. About 35 people turned up to watch the film in the terminal, and it was such a hit that Screen Tiree have asked for the team to get involved and support future events. **[Image Top Gun in terminal]**

The team at Campbeltown Airport held their inaugural 'Run the Runway' charity event on Sunday 27 November 2022, in partnership with Campbeltown District Juvenile Football Association.

The association provides an opportunity for children of all ages and backgrounds to train and play football in a safe and organised environment, with almost 300 local children registered.

The airport fire service team joined more than 120 children from as young as five, and up to 16 years old, to run or walk 2km of the runway. Everyone that participated really enjoyed themselves and the airport team took pleasure in working closely with the community and helping to raise £1,372 for this local cause.

[Pic of supplies from HIAL] Although not the prettiest of pictures, it shows HIAL's latest donation of surplus and life expired fire and rescue equipment to the International Fire & Rescue Association (IFRA). The donation included personal protective equipment, trauma, water rescue and firefighting equipment from a number of our airports. It made up part of a larger shipment of donations sent overseas by the charity to help protect and equip emergency services in developing nations.

The equipment was collated by Gary Johnstone, our Watch Manager at Dundee Airport, who is also a director of the charity.

To date IFRA have sent 107 vehicles, 77 containers and completed 72 training missions in 24 countries worldwide. HIAL firefighters volunteering with the charity have delivered training to fire fighters in Albania, Argentina, Bosnia and Paraguay.

The team at Benbecula Airport hosted a Macmillan Coffee morning November 2022 and raised a fantastic £4,405.

Those that attended were treated to a raffle, home baking, bottle stall, with the car wash proving very popular at the event. The team were thanked for their hard work in organising the event and the superb donation for MacMillan.

[Collage of pictures from event – SM post]

In September 2022, the team at Kirkwall attended the local career's fair at the Pickaquoy Centre to promote the different roles undertaken at the airport. Their stall was interactive with pupils trying out the different equipment used by security and fire service colleagues. The team are progressing a request from Orkney College to conduct work experience at the airport across the different disciplines as a direct result of this successful event.

Inverness Airport won four awards at the 2022 Airports Council International (ACI) Airport Service Quality (ASQ) Awards. The airport was named the Best Airport under 2 million Passengers in Europe, with passengers recognising the team's efforts in providing superior customer service. Inverness also earned three other accolades including Airport with the Most Dedicated Staff in Europe, Easiest Airport Journey in Europe, and Cleanest Airport in Europe.

[Graphic – No 1]

Colleagues from our Finance team at Head Office decided to spread a little festive joy at the end of November 2022 by volunteering at Blythswood Care.

The team visited the charity's Evanton based warehouse to assist with the Shoe Box Appeal. The appeal provides everyday essentials like shampoo, deodorant and toothbrushes to vulnerable people in Ukraine, Albania, Bulgaria, Hungary, Kosovo, Moldova, Romania and Serbia. Everyday essentials that we often taken for granted.

The team have been supporting the cause since 2015, but this is the first time since 2019 that they were able to take part. This year the boxes they were working on were destined for Ukraine.
[picture of team packing boxes]

POP OUT STORY BOXES

Cameron Marshall, a Firefighter at Dundee Airport was named The Fresson Trust's 'Apprentice of the Year.' Cameron has been with HIAL for 17 years and is currently undertaking his BA (Hons) Business Management with Robert Gordon University (RGU). This is part of the Graduate Apprenticeship programme with funding from Skills Development Scotland and RGU.
[Picture of Cameron with his award]

Fire and water connected through art

When not on duty, Sumburgh Airport Fire Service, Crew Manager, Rae Simpson, can be found creating stunning stain glass artwork. In 2022, some of his artwork became a permanent fixture in the departures lounge of the airport for passengers, partners and colleagues at Sumburgh to enjoy.

VisitScotland asked Rae to make a piece of artwork for the 2020/21 Year of Coasts and Waters. Rae took his inspiration from a collection of drawings created by some of Shetland's schoolchildren that depicted what Shetland's coasts meant to them.

A wonderfully stunning piece of glass artwork that is now a permanent fixture at the airport. Those that look carefully, will notice some facts about Shetland and its inhabitants sandblasted into several pieces.

The project was completed in partnership with SIC Youth & Employability Services and Shetland's Schools. It was funded by The Scottish Government, VisitScotland and YouthLink Scotland.
[picture of glass artwork]

Runway Rehabilitation at Sumburgh

The resurfacing project at Sumburgh Airport was completed and operations returned to normal in December 2022.

Work began to resurface runway 06/24, an area of Virkie Apron and the fire access road in September 2022. The team worked to make sure that operational disruption was kept to a minimum throughout the project.

Although the project suffered some disruption due to weather delays the main body of work was completed on time and on budget.

The work will safeguard helicopter operations at Sumburgh Airport by extending the lifespan of this key piece of infrastructure by 15 years or more.
[Collage of pictures of project]

Trade Union Act 2016:
Facility Time Reporting from 1 April 2022 to 31 March 2023

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require public sector employers to publish information relating to facility time.

HIAL recognises three trade unions: Prospect, Public and Commercial Services Union (PCS) and Unite.

A Facility Time agreement is in place to provide union representatives:

- with facilities to enable them to communicate with members and promote good employee relations.
- reasonable time off during working hours to undertake union duties including representing staff, attending consultation meetings and conducting health and safety inspections.
- reasonable time off during working hours to undertake training relevant to carry out duties as a union representative.

The Company interaction with the trade unions is mainly undertaken with the full-time Negotiation Officers from each of the trade unions. Full-time officials attend the Company Joint Negotiation and Consultative Committee (JNCC) and, in most cases, represent individual members of staff in case management meetings.

The JNCC is attended by local trade union representatives. In addition, the Company has specific arrangements and meetings with the relevant trade union for significant projects and programmes of work. Each airport has in place interface arrangements in which local representatives participate.

Trade Union Representatives 2022/23

Prospect	26
PCS	1
Unite	11

HIAL has no full-time trade union officials. Each of the 38 representatives will spend less than 10% of their working time on trade union duties.

Over the last year the Company has seen a change in Prospect's full-time Negotiation Officer. The transition from one to the other was seamless and we continue to have open and constructive dialogue. The positive engagement established through the pandemic has continued and there is good engagement with officials through our JNCC as well as our Policy Steering Group which provides more time to discuss the development of HIAL employment policies.

Streamlined Energy and Carbon Reporting (SECR)

SECR reporting requirements

The streamlined energy and carbon reporting (SECR) regulations is a mandatory reporting framework to replace the CRC energy efficiency scheme. The regulation came into force on 1 April 2019 and covers financial reporting years starting on or after this date. For Highlands and Islands Airports Limited (HIAL) this is 1 April 2022 to 31 March 2023.

The regulation applies to large companies that meet two of the following criteria:

- Over 250 employees
- Turnover of over £36 million
- Balance sheet total of over £18 million

Companies in scope of the legislation will need to include energy and carbon information in their Directors' Report as part of their annual filing obligations.

Since HIAL is a large, unquoted company, the following should be included as a minimum:

- UK energy use (as a minimum gas, electricity, and transport). Transport reporting is mandatory in instances where the organisation is responsible for purchasing the fuel.
- Associated greenhouse gas emissions.
- Previous year's figures for energy use and GHG emissions (except in the first year).
- At least one intensity ratio (e.g. emission per FTE staff numbers or turnover).
- Information about energy efficiency action taken in the organisation's financial year.
- Methodology used in calculation of disclosures.

There is potential this could be expanded in the future as the guidance document discusses water and waste.

At HIAL, we have been publicly reporting emissions in line with UK mandatory greenhouse gas reporting regulations since 2018/19. Following the introduction of the streamlined energy and carbon reporting requirements we will continue to publish our energy consumption and associated carbon emissions in our annual report accordingly.

The emissions reported include emissions from all of HIAL owned and operated airports. These are: Barra Airport, Benbecula Airport, Campbeltown Airport, Dundee Airport, Inverness Airport, Inverness Head Office, Islay Airport, Kirkwall Airport, Stornoway Airport, Sumburgh Airport, Tiree Airport, and Wick John O'Groats Airport. The finances for these airports are consolidated at the group level, and therefore emissions are consolidated in the same manner. Table 1 outlines the emissions profile for the 2022/23 financial year, where in the location-based approach emissions have decreased by 19.8% and in the market-based approach, emissions have decreased by 28%.

Table 1 HIAL Emissions Profile – Like-for-Like mandatory emissions reporting for the 2021/22 and 2022/23 financial years

		Location-Based		Market-Based	
		2021/22	2022/23	2021/22	2022/23
	Unit	UK and Offshore	UK and Offshore	UK and Offshore	UK and Offshore
Energy consumption used to calculate emissions: kWh	**kWh**	19,634,445	17,028,565	19,634,445	17,028,565
Scope 1 emissions from combustion of heating fuels and transport fuels	**tCO_2e**	2,761	1,842	2,761	1,842
Emissions from business travel in rental cars (fuel cards) or employee-owned vehicles (mileage claims) where company is responsible for purchasing the fuel (Scope 3)	**tCO_2e**	48	12	48	12
Emissions from purchased electricity (Scope 2)	**tCO_2e**	1,779	1,670	-	-
Total like-for-like CO_2e based on above	**tCO_2e**	**4,588**	**3,680**	**2,809**	**2,011**
Like-for-like Intensity ratio: $kgCO_2e$ / total passenger numbers	**$kgCO_2e$/ PAX**	**4.46**	**2.58**	**2.73**	**1.41**

To facilitate year on year comparison of emissions considering fluctuations in activity level, HIAL have calculated the intensity ratio of emissions per total passenger numbers for the reporting year. This is based on 1,028,466 passengers for 2021/22 and 1,427,176 passengers for 2022/23. Alongside the increase in passenger numbers, HIAL have achieved emissions reductions in scope 1 and 2 emissions that have caused the intensity ratio to drop year-on-year.

For the second year, HIAL is able to provide additional emission reporting insight in scope 3. This has been provided below, namely:

- Enhanced reporting of emissions associated with fuel and energy activities that are not typically included in scope 1 and 2 boundaries. Well-to-tank (WTT)[1] and transmission and distribution (T&D)[2] losses associated with electricity, heat, and fuel consumption in scope 1 and 2 are included.
- An additional category of Scope 3 emissions data: business travel emissions data, has been included to fully reflect the extent of internal business travel activities undertaken by HIAL employees, this includes UK and international travel via road, rail, ferry, and air.

Table 2 HIAL Profile – Reporting of Optional Scope 3 Emissions for the 2022/23 financial year.

	Unit	Location-Based 2022/23	Market-Based 2022/23
Emissions from combustion of heating and transport fuels (Scope 3 WTT)	**tCO_2e**	470	470
Emissions from business travel via use of public transport (Scope 3)	**tCO_2e**	452	452
Emissions from purchased electricity (Scope 3 WTT, T&D, WTT and T&D)[3]	**tCO_2e**	589	589
Total Scope 3 CO_2e emissions	**tCO_2e**	1,428	1,428
Total Gross CO_2e emissions (including the like-for-like CO_2e per Table 1)	**tCO_2e**	5,191	3,085

Energy efficiency actions

HIAL have continued to undertake actions to improve the energy efficiency of sites and reduce carbon emissions. This includes the following activities and projects:

- Seventeen electric and hybrid Ground Power Units have been introduced across Kirkwall, Inverness, Benbecula, Stornoway and Sumburgh, these have been leased to Loganair and Dalcross Handling and are used to provide power to aircraft when on stand.
- Expansion of the fleet of electric vehicles and electric ground power equipment with electric alternatives, replacing traditional equipment at Wick and Dundee.
- Maintained Airport Carbon Accreditation (ACA) certification at Level 1 for Inverness, with a plan developed to progress through the scheme over the coming years.
- Continued roll-out of LED lighting replacements.

[1] WTT refers to emissions associated with the extraction, processing, and transportation of fuels and electricity to the reporting company
[2] T&D losses refers to the emissions that occur due to losses from the transmission and distribution of electricity from the point of generation to the reporting company.
[3] As HIAL's electricity is 100% backed by REGOs, the market-based reporting considers only T&D associated emissions for electricity.

- Continued to reduce emissions from fire training at airports by reducing training frequency to once per month, testing of equipment to once per week, and further investigated alternate methods of training, including virtual sessions.

- Introduced solar powered aircraft boarding ramps at most airports.

- Promoted energy efficiency to airport teams to support with encouraging a behaviour change.

- The Sustainable Aviation Test Environment (SATE) received further funding to continue to provide an operationally based, low carbon aviation test centre at Kirkwall Airport.

- Joined Sustainable Aviation, an aviation industry partnership committed to delivering a sustainable future.

Methodology used for carbon footprint calculation

The carbon footprint has been calculated by Ricardo Energy & Environment who have used a methodology aligned with the principles of the Greenhouse Gas Protocol (GHG) Standard for Corporate Accounting and Reporting produced by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI) – a globally recognised standard. The GHG Protocol Standard is one of the recommended methodologies under SECR guidelines. The footprint utilises UK Government conversion factors for the year of reporting and the comparison year. For energy use where figures were not already in kWh these have been converted using their density and gross calorific value taken from the UK government GHG conversion factors fuel properties tab for the year of reporting. For owned vehicles this was based on the conversion factors for diesel, petrol, kerosene, propane, and gas oil.

The data captured within this year's carbon footprint calculation has predominantly been derived from invoices from energy suppliers, though data on electricity was captured through half-hourly and non-half hourly metered data. Carbon emissions emitted from vehicles owned by HIAL have been calculated based on the litres of fuel consumed per vehicle due to mileage not being available as a conversion metric.

HIAL also have tenants where the responsibility for purchasing the energy is within HIAL's remit, but the energy is being consumed by the tenant and is then re-charged to the tenant. Emissions from these sources were excluded from this report.

Analysis of financial data for business travel fuels has taken account of any overlap between HIAL accounts to avoid double counting. When calculating emissions from transport fuels, where only the spend on fuel was given (hire car fuel and personal mileage), an assumption was made that 50% of spend is petrol and 50% is diesel. Finally, where appropriate, either average fuel price from invoices or from the Sustainable Scotland Network (CFPR tool) were used to convert spend on fuel to volume.

HIAL have also made the decision to voluntarily report the market-based emissions alongside the mandatory location-based emissions methodology, as this will reflect HIAL's purchase of 100% REGO backed electricity. With evidence to support this, all electricity supplied to HIAL through EDF has had the consumption multiplied by an emission factor of zero.

Emissions from business travel activities were calculated based on spend-based data received centrally, and from costs per unit of distance travelled data for the five categories of public transport: air, ferry, rail, bus and taxi, extracted from the Carbon Footprint & Project Register (CFPR) tool. Hence the total emissions for this area are only indicative but provide enhanced coverage of HIAL's Scope 3 Business Travel emissions compared to the previous reporting period.

Compliance Statement

Ricardo has been working with HIAL to calculate HIAL's 2022/23 greenhouse gas (GHG) and environmental data for SECR reporting. This statement summarises the outcome of the process.

Assurance period
The period for which emissions are reported is 1 April 2022 to 31 March 2023.

Level and scope of assurance
Ricardo has carried out a limited level assurance review of HIAL's 2022/23 GHG and environmental data with the purpose of enabling HIAL to be compliant with SECR. The data provided covered mandatory reporting data. This assurance covers the emissions profile outlined above in Section 2 SECR material for the Highlands and Islands Airports Limited annual report.

Assurance methodology
The assurance of HIAL's 2022/23 greenhouse gas and environmental data by Ricardo has been conducted in line with ISO 14064-3: 2019: Specification with guidance for the validation and verification of greenhouse gas assertions as well as the ISAE 3000 (revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information criteria.

Ricardo Energy and Environment's opinion
Based on Ricardo Energy & Environment's review:

1. HIAL is well prepared for complying with the SECR legislation and the requirements of the scheme in 2022/23.
2. The data that will be used to create the SECR annual report submission is comprehensive, well-structured and to a high degree of accuracy.
3. There is scope for the data management processes to be improved for future reporting periods to enable swifter SECR compliance calculations. HIAL are already working towards this end by:

- Putting in place a recurring annual data request for the relevant SECR group-level data to be made available by HIAL internal Finance/Accounts Department;
- Putting in place a recurring annual data request for the relevant Scope 3 aircraft data (Aircraft Engine Testing and LTO/CCD data) to be made available by airline operators at HIAL airports;
- Putting procedures in place to ensure that all relevant airport departments are able to access and store the required consumption data internally at one central location;
- Keeping staff up to date with the reporting requirements for SECR and ACA carbon footprinting so that data collection and monitoring is in place throughout the year; and
- Improve data collection procedures for waste generation and water consumption in the event future reporting requirements expand to these categories.

4. The review of data found no material errors and no omissions which were not accounted for from the required data.

Conclusion
Based on the audit of the processes and procedures conducted, there is no evidence that the 2022/23 GHG data is not materially correct and is not a fair representation of HIAL's data and information.
Ricardo recommends that HIAL undertakes a similar greenhouse gas assurance in 12 months' time and routinely checks its environmental data.

Independence and competence
Ricardo Energy & Environment is one of the world's leading energy and climate change consultancies, with over 1,000 internationally respected experts specialising in offering independent advice and auditing services in the fields of energy, air quality, resource efficiency, transport,

sustainability and economics. Its experts have been involved in ground-breaking technical and policy development across the environmental spectrum for the last 40 years, and they continue to play a lead role as advisor to governments, policy makers and major corporations.

Validity of statement

This statement is valid for the greenhouse gas and environmental data assurance review, for the period from 1st April 2022 to 31st March 2023.

Ricardo Energy & Environment accepts no liability whatsoever to any third party for any loss or damage arising from any interpretation or reliance upon this assessment.

James Broughton
Senior Consultant
Sustainability: Energy and Carbon Management
james.broughton@ricardo.com
+44 (0)1235 753 000

DIRECTORS' REPORT

The directors submit their report and the group financial statements for the year ended 31 March 2023.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Lorna Jack	Chair	
Stewart Adams	Managing Director	(Appointed 14 June 2023)
Inglis Lyon	Managing Director	(Resigned 14 June 2023)
Jamie Manson FCPFA	Finance Director	(Appointed 17 October 2022)
Johanna Wallace CA	Finance Director	(Resigned 27 May 2022)
Lynne Clow	Director	
Eric Hollanders	Director	(Resigned 30 November 2022)
Chris Holliday	Director	
Wilhelmina Strachan	Director	
Isabel Todenhoefer	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 appointed auditor, Azets Audit Services have expressed their willingness to continue in office as auditor and will be proposed for re-appointment in accordance with section 485 of the Companies Act 2006.

Disclosure of information to the auditor

Each director in office at the date of approval of this annual report has confirmed that:

- So far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and,
- The director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the Board

J. Manson

Jamie Manson
Company Secretary
8 November 2023

GOVERNANCE STATEMENT

Introduction

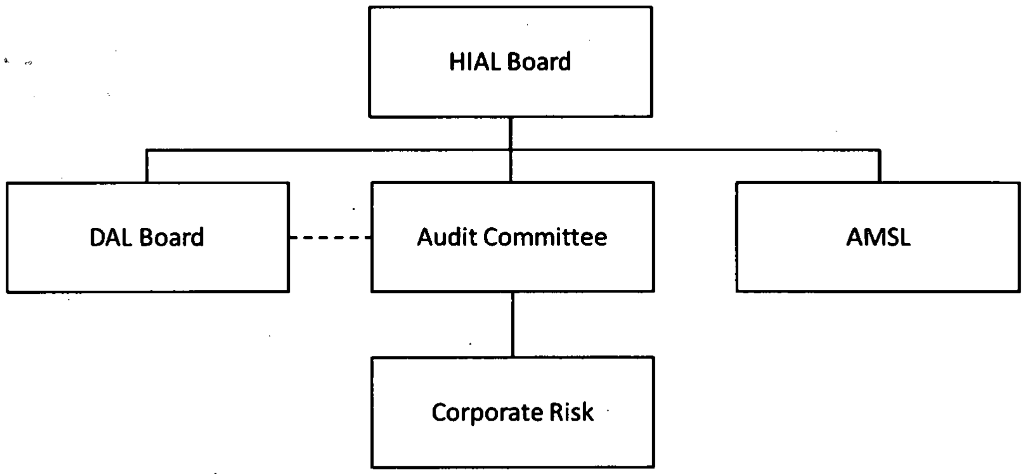
The purpose of the Governance Statement is to explain the composition and organisation of HIAL's governance structures and how they support the achievement of HIAL's objectives. It sets out the governance structures, risk management and internal control processes that have been operating in HIAL during financial year 2022/23 and reports my assessment of the effectiveness of these arrangements.

Governance framework

HIAL is a non-departmental public body, sponsored by Transport Scotland. The broad framework in which we operate is set out in the Framework Document, which defines key roles and responsibilities that underpin the relationship between HIAL and Transport Scotland. This document forms a key part of our accountability and governance framework.

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 sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety. As a non-departmental public body, HIAL is required to comply with the requirements of the SPFM. In addition, HIAL is subject to the guidance in the Scottish Government's Audit Committee Handbook.

The following diagram outlines the Group's governance structure in place during the year until the date of signature of the annual report and accounts.



The Board

The Board determines the overall strategic direction of the Group, taking into account the Scottish Ministers' expressed policy to encourage economic and social development in the areas served by HIAL. The Board has collective responsibility for maintaining a sound system of corporate governance and internal control that supports the achievement of Highlands and Islands Airports Ltd.'s policies, aims and objectives whilst safeguarding public funds and assets. The role of the Board is defined in the Framework Document between Transport Scotland and HIAL, which is being renewed in 2023. The HIAL Board is responsible for providing leadership, direction, support and guidance to the Company, whilst ensuring that HIAL delivers its functions efficiently and effectively and in accordance with the aims, policies and priorities of the Scottish Ministers.

Members of the HIAL Board are appointed by Scottish Ministers and have a collective responsibility for the proper conduct of HIAL's affairs. Members have full and timely access to all relevant information to enable them to perform their roles effectively.

At the start of the year, the Board was composed of eight members:

- the non-executive chair,
- the executive managing director,
- the executive finance director, and,
- five non-executive directors

During the year, one non-executive director left the Board on 30 November 2022, following their term of appointment coming to an end. Membership of the Board remains in line with the Framework Document.

The Board has a clear schedule of matters reserved to it, which is reviewed and updated annually, and a clear scheme of delegation to the managing director, finance director and other members of the executive team, which is reviewed and updated regularly.

All matters of significance including those reserved to the Board are brought for discussion and approval to the Board at its meetings. The Board meets on an approximately eight-weekly cycle, with periodic additional meetings as business dictates. A register of interests is maintained for all Board Members throughout the year.

The Assessor

The Scottish Ministers are entitled to appoint an Assessor to the Board, who may attend Board meetings but are not entitled to vote at any Board meeting or act in any capacity as a company director.

Audit Committee

The Board has established an Audit Committee with an agreed terms of reference to advise it on the adequacy of risk management arrangements, internal control and governance matters, including compliance with the SPFM. The committee receives regular reports from internal and external auditors and oversees the corporate risk register brought to it by the executive team. It oversees compliance with legislation and regulation. The committee reports audit, risk and compliance matters to the Board following each meeting.

During the year, the Audit Committee was composed of three non-executive directors, including the chair. The managing director and the finance director are invited to attend Audit Committee meetings.

People Committee

During the year, the Board established a People Committee to provide advice on all people-related matters, including the preparation, development and implementation of HIAL's people strategy, oversight of HIAL's people policies and pension schemes, development of the annual pay remit and oversight of HIAL's succession and development plans. The committee provides an update on people matters to the Board following each meeting.

The People Committee comprised of three non-executive directors, one of which chairs the committee, and the managing director. The director of HR and finance director are invited to attend People Committee meetings.

Board and Committee Attendance

Attendance at Board and Committee meetings are shown below, for both the Highlands and Islands Airports Ltd (HIAL) Board and the Dundee Airport Limited (DAL) Board. The figures in brackets indicate the number of meetings that Board Members were eligible to attend. Additional meetings of the Board and the Audit Committee were held to facilitate the consideration and approval of the 2021/22 annual report and accounts. The People Committee was newly established in the year and held one meeting during the financial year.

Name	HIAL Board			DAL Board		
	Position	Held	Attended	Position	Held	Attended
Lorna Jack	Chair	7	7 (7)	Chair	7	7 (7)
Inglis Lyon	Member MD	7	7 (7)	Member MD	7	7 (7)
Jamie Manson (from 17/10/22)	Member FD	7	4 (4)	Member FD	7	4 (4)
Johanna Wallace (to 27/5/22)	Member FD	7	1 (1)	Member FD	7	1 (1)
Eric Hollanders (to 30/11/22)	NXD Member	7	5 (5)	NXD Member	7	5 (5)
Wilhelmina Strachan	NXD Member	7	7 (7)	NXD Member	7	7 (7)
Isabel Todenhoefer	NXD Member	7	7 (7)	NXD Member	7	6 (7)
Chris Holliday	NXD Member	7	7 (7)	NXD Member	7	6 (7)
Lynne Clow	NXD Member	7	7 (7)	NXD Member	7	7 (7)
Greg Colgan	N/A	N/A	N/A	NXD Member	6	6 (6)

Name	Audit Committee			People Committee		
	Position	Held	Attended	Position	Held	Attended
Lorna Jack	N/A	N/A	N/A	NXD Member	1	1 (1)
Inglis Lyon	In attendance	5	5 (5)	Member MD	1	1 (1)
Jamie Manson (from 17/10/22)	In attendance	5	3 (3)	N/A	N/A	N/A
Johanna Wallace (to 27/5/22)	In attendance	5	1 (1)	N/A	N/A	N/A
Eric Hollanders	NXD Member (to 30/11/22)	5	4 (4)	N/A	N/A	N/A
Wilhelmina Strachan	Chair	5	5 (5)	N/A	N/A	N/A
Isabel Todenhoefer	NXD Member	5	5 (5)	NXD Member	1	1 (1)
Chris Holliday	NXD Member (from 1/1/23)	5	1 (1)	N/A	N/A	N/A
Lynne Clow	N/A	N/A	N/A	Chair	1	1 (1)
Greg Colgan	N/A	N/A	N/A	N/A	N/A	N/A

Internal audit

A programme of internal audit was approved by the Audit Committee and undertaken by the appointed internal auditors, Wylie Bisset LLP. This enabled the Audit Committee to scrutinise the adequacy, effectiveness and reliability of internal controls in key functions and systems.

During the year, the following internal audit reviews were undertaken:

Internal Audit Area of Focus	Audit Rating
ATMS Follow Up	N/A
Data Protection & Information Governance	Substantial
Budgeting & Forecasting	Strong
Airport Management System Implementation	Strong
Payroll System and Controls	Substantial
Cyber Security	Strong

From the audits undertaken during the year, a total of 18 recommendations were made, 14 of which were considered to be low priority recommendations that will be addressed by the management team.

In addition, internal audit identified 20 outstanding recommendations that had not been addressed since initial recommendations were made in audits conducted in prior financial years. The senior management team has focused on implementing all outstanding recommendations since April 2023, and intends to have addressed all historical recommendations by the end of the calendar year.

Purpose of the system of internal control

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

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

The Group's systems and processes are consistent with the SPFM and have been in place for the year ended 31 March 2023 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 through the Audit Committee, to the Board, of both the HIAL Group and DAL.

The Board, through the managing director, 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, considering the Group's risk exposure;
- Escalate risks to the HIAL Board and the Scottish Government Sponsor Unit as appropriate;
- 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 regarding risk management;
- Drive forward new risk management initiatives within the business;
- Communicate risk and share good practice;
- Review and monitor risk management training; and

- Undertake specific activities as directed by the Group boards.

Safety Management System

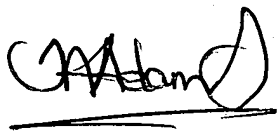
The Safety Management System provides a robust framework for the management of safety within the business. Each member of staff is encouraged to work within the framework and to work with the various management teams in improving the framework where it is necessary.

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.

Review of Effectiveness

As Chief Executive Officer, I am accountable to the Board and responsible for maintaining sound systems of internal control, which support the achievement of the Group's policies, aims and objectives set by the Scottish Ministers, while safeguarding public funds and assets. As a non-departmental public body, the HIAL Group operates in an open and accountable manner, providing high quality public services. We are committed to accessibility, openness and accountability and aim for the highest standards in corporate governance.

I am satisfied that the governance arrangements, systems and processes in place across the HIAL Group have offered effective control and have facilitated the achievement of the Group's objectives and accountabilities of Highlands and Islands Airports Limited during 2022/23.



Stewart Adams
Chief Executive Officer
8 November 2023

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 UK adopted international accounting standards (UK adopted IAS). 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 company and of the profit or loss of the Group for that period.

In preparing these financial statements the directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Opinion

We have audited the financial statements of Highlands and Islands Airports Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2023 which comprise the Group Income Statement, the Group and Company Statement of Comprehensive Income, the Group and Company Statement of Changes in Equity, the Group and Company Balance Sheet, the Group and company Statement of Cash Flows, and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023, and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Extent to which the audit was considered capable of detecting irregularities including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

In response to the risk of irregularities and non-compliance with laws and regulations, including fraud, we designed procedures which included:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the group and the parent company through discussions with directors and other management, and from our commercial knowledge and experience of the sector;
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the group and the parent company, including the Companies Act 2006, taxation legislation and data protection, anti-bribery, employment and health and safety legislation;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of the group and the parent company's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;
- assessed whether judgements and assumptions made in determining the accounting estimates were indicative of potential bias; and
- investigated the rationale behind significant or unusual transactions.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation;
- reading the minutes of meetings of those charged with governance;
- enquiring of management as to actual and potential litigation and claims; and
- reviewing correspondence with HMRC and the group and parent company's legal advisors.

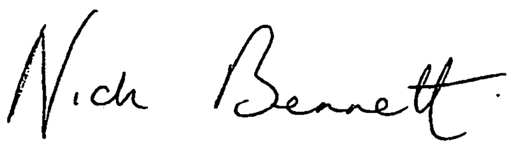
There are inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance. Auditing standards also limit the audit procedures required to identify non-compliance with laws and regulations to enquiry of the directors and other management and the inspection of regulatory and legal correspondence, if any.

Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx. This description forms part of our auditor's report.

Use of our report

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, as a body, 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.



Nick Bennett (Senior statutory auditor)
Azets Audit Services, Statutory Auditor
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL
23 November 2023

GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £000	2022 £000
Revenue	3	**26,971**	17,788
Cost of sales		**(54,126)**	(52,273)
Gross loss		**(27,155)**	(34,485)
Administrative expenses		**(9,790)**	(7,196)
Other income	4	**38,005**	39,975
Other gains/(losses)	6	**578**	97
Operating profit / (loss)	5	**1,638**	(1,609)
Share of operating loss in joint venture	12	**(30)**	(18)
Finance (costs)/revenue	8	**(113)**	(110)
Other finance cost – pensions	21	**(1,296)**	(1,620)
Profit / (loss) from continuing operations before tax		**199**	(3,357)
Tax charge	9	**-**	-
Profit / (loss) from continuing operations		**199**	(3,357)

All activities relate to continuing operations

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £000	2022 £000
Profit / (loss) for the year		**199**	(3,357)
Other comprehensive income:			
Actuarial gains	21	**30,470**	30,649
Tax on items relating to components of other comprehensive income		**-**	-
Other comprehensive income/(expense) for the year, net of tax		**30,470**	30,649
Total comprehensive income/(expense) for the year		**30,669**	27,292

COMPANY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £000	2022 £000
Loss for the year		**(663)**	(1,108)
Other comprehensive income:			
Actuarial gains/(losses)	21	**25,066**	29,333
Tax on items relating to components of other comprehensive income		**-**	-
Other comprehensive income/(expense) for the year, net of tax		**25,066**	29,333
Total comprehensive income/(expense) for the year		**24,403**	28,225

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Equity share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 April 2021	50	(63,189)	(63,139)
(Loss) in year attributable to equity holders	-	(3,357)	(3,357)
Other comprehensive income	-	30,649	30,649
At 31 March 2022	50	(35,897)	(35,847)

	Equity share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 April 2022	50	(35,897)	(35,847)
Profit in year attributable to equity holders	-	199	199
Other comprehensive income	-	30,470	30,470
At 31 March 2023	**50**	**(5,228)**	**(5,178)**

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Equity share capital	Retained earnings	Total equity
	£000	**£000**	**£000**
At 1 April 2021	50	(56,655)	(56,605)
(Loss) in year attributable to equity holders	-	(1,108)	(1,108)
Other comprehensive income	-	29,333	29,333
At 31 March 2022	50	(28,430)	(28,380)

	Equity share capital	Retained Earnings	Total Equity
	£000	**£000**	**£000**
At 1 April 2022	50	(28,430)	(28,380)
(Loss) in year attributable to equity holders	-	(663)	(663)
Other comprehensive income	-	25,066	25,066
At 31 March 2023	**50**	**(4,027)**	**(3,977)**

GROUP STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2023

	Notes	2023	2022
		£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**163,370**	162,908
Investment properties	11	**3,399**	718
Investments accounted for using the equity method	12	**(62)**	(41)
Intangible assets	13	**55**	55
		166,762	163,640
Current assets			
Trade and other receivables	14	**8,864**	8,262
Inventories	15	**104**	149
Cash and cash equivalents	16	**3,730**	6,661
		12,698	15,072
Total assets		**179,460**	178,712
LIABILITIES			
Current liabilities			
Trade and other payables	17	**(16,114)**	(16,654)
		(16,114)	(16,654)
Non-current liabilities			
Loan	18	**(3,539)**	(4,074)
Defined benefit pension scheme deficit	21	**(5,796)**	(37,351)
Deferred subsidies	19	**(159,189)**	(156,480)
		(168,524)	(197,905)
Total liabilities		**(184,638)**	(214,560)
NET LIABILITIES		**(5,178)**	(35,847)
EQUITY			
Ordinary shares	22	**50**	50
Retained earnings		**(5,228)**	(35,897)
		(5,178)	(35,847)

These financial statements were authorised by for issue by the Board of Directors on 8 November 2023 and signed on its behalf by:

Lorna Jack
Chair

Stewart Adams
Chief Executive Officer

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2023

	Notes	**2023**	2022
		£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**153,756**	153,074
Investment properties	11	**3,399**	718
Investments	12	**1,998**	1,998
		159,153	155,790
Current assets			
Trade and other receivables	14	**11,217**	11,568
Inventories	15	**65**	116
Cash and cash equivalents	16	**3,304**	6,360
		14,586	18,044
Total assets		**173,739**	173,834
LIABILITIES			
Current liabilities			
Trade and other payables	17	**(15,637)**	(15,997)
		(15,637)	(15,997)
Non-current liabilities			
Loan	18	**(3,539)**	(4,074)
Defined benefit pension scheme deficit	21	**(9,009)**	(35,541)
Deferred subsidies	19	**(149,531)**	(146,602)
		(162,079)	(186,217)
Total liabilities		**(177,716)**	(202,214)
NET LIABILITIES		**(3,977)**	(28,380)
EQUITY			
Ordinary shares	22	**50**	50
Retained earnings		**(4,027)**	(28,430)
		(3,977)	(28,380)

These financial statements were authorised by for issue by the Board of Directors on 8 November 2023 and signed on its behalf by:

Lorna Jack
Chair

Stewart Adams
Chief Executive Officer

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £000	2022 £000
Cash flows from operating activities			
Cash generated by operations	23	**(5,594)**	3,754
Purchase of property, plant and equipment		**(22,789)**	(37,422)
Proceeds from sale of property, plant and equipment		**8,567**	468
Receipt of capital subsidy		**17,376**	36,198
Tax paid		**-**	-
Net cash flow from operating activities		**(2,440)**	2,998
Cash flows from investing activities			
Increase in loan to joint venture		**(25)**	(25)
Net cash flow from investing activities		**(25)**	(25)
Cash flows from financing activities			
Loan received		**1,630**	1,346
Loan repaid		**(1,983)**	(1,137)
Finance lease repaid		**-**	-
Interest (paid)		**(113)**	(110)
Net cash flow from financing activities		**(466)**	99
Increase/(decrease) in cash and cash equivalents		**(2,931)**	**3,071**
Cash and cash equivalents at the beginning of the year		**6,661**	3,589
Cash and cash equivalents at the end of the year		**3,730**	6,661

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £000	2022 £000
Cash flows from operating activities			
Cash generated by operations	23	**(6,003)**	3,778
Purchase of property, plant and equipment		**(21,978)**	(35,918)
Proceeds from sale of property, plant and equipment		**8,578**	115
Receipt of capital subsidy		**16,839**	35,154
Tax paid		**-**	-
Net cash flow from operating activities		**(2,564)**	3,129
Cash flows from investing activities			
Increase in loan to joint venture		**(25)**	(25)
Net cash flow from investing activities		**(25)**	(25)
Cash flows from financing activities			
Loan received		**1,629**	1,339
Loan repaid		**(1,983)**	(1,137)
Finance lease repaid		**-**	-
Interest (paid)		**(113)**	(108)
Net cash flow from financing activities		**(467)**	94
Increase/(decrease) in cash and cash equivalents		**(3,056)**	3,198
Cash and cash equivalents at the beginning of the year		**6,360**	3,162
Cash and cash equivalents at the end of the year		**3,304**	6,360

NOTES TO THE FINANCIAL STATEMENTS

1. Authorisation of financial statements and Statement of Compliance

The financial statements of Highlands and Islands Airports Limited and its subsidiaries (the Group) for the year ended 31 March 2023 were authorised for issue by the Board of Directors on 8 November 2023 and the Balance Sheet was signed on the Board's behalf by Lorna Jack and Stewart Adams.

The Group's financial statements have been prepared in accordance with UK-adopted International Accounting Standards (UK-adopted IAS). As a result of the UK leaving the EU, the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/685) requires all companies with accounting periods beginning on or after 1 January 2021 to apply UK-adopted IAS.

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

2. Accounting policies

2.1 (a) Basis of preparation

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

2.1 (b) Going concern

On the basis of the information available to them, the Directors have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future.

As a result of the IAS 19 pension deficit, the Group has net liabilities of £5.178m and the Company has net liabilities of £3.977m at 31 March 2023. This net liability position 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 Directors consider it appropriate to continue to adopt the going concern basis in preparing the 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 2023.

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

The Financial Statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies.

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

2.3 Significant accounting policies

(a) Revenue recognition

Revenue is recognised in accordance with IFRS 15 *Revenue From Contracts with Customers* 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 associated service is provided. In addition, rental income is earned through the leasing of buildings and/or parts of buildings to various tenants and is recognised on a straight-line basis over the rental period. Revenue, exclusive of value added tax, derived from aircraft leases is recognised on a straight-line basis over the period of the lease.

(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 to the Income Statement 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 participates in two defined benefit schemes and one defined contribution scheme. The Company operates the Highlands and Islands Airports Pension Scheme, a defined benefit scheme. Employees of Dundee Airport participate in the Tayside Superannuation Fund, operated by Dundee City Council. The Group also participates in the People's Pension Scheme, which is a defined contribution scheme which Group employees join through auto-enrolment.
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.

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 an expense.

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:

Land and Buildings Freehold

Freehold buildings -	over 6 years to 60 years
Leasehold land and buildings -	over the remaining life of the lease to a max of 50 years
Car parks -	over 10 years to 45 years

Plant and Equipment

Navigation aids -	over 5 years to 20 years
Runways, aprons, and main services -	over 3 years to 50 years
Aircraft & Aircraft Spares -	over 25 years
Vehicles -	over 5 years to 10 years
Specialist airport vehicles -	over 10 years to 20 years
Plant and IT equipment -	over 3 years to 10 years
Furniture and fittings -	over 3 years to 5 years

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

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

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

(f) 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.

(g) Investments in joint ventures

Entities in which the Group holds a long-term interest, 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.

(h) 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 transfers 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.

(i) 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.

(j) 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 assets 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.

(k) Cash and short-term deposits

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

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) Financial asset impairment review

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 short-term loan receivables. The assets are reviewed for impairment as follows:

Assets carried at amortised cost

In relation to trade receivables and short-term loan receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

2.4 Judgements and key sources of estimation uncertainty

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

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

Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the Income Statement. The Group engaged independent valuation specialists to determine the fair value as at 31 March 2023. 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 21.

2.5 Changes in accounting policy and disclosures - new and amended standards and interpretations

The following standards and interpretations are mandatory for the first time for the year ended 31 March 2023 but are either not applicable or have no material impact on the Group's financial statements.

Title	Implementation	Effect on Group
Onerous Contracts – Cost of Fulfilling a Contract (Amendment to IAS 37)	Accounting periods beginning on or after 1 January 2022	No material impact on the Financial Statements is expected
Annual Improvements to IFRS Standards 2018 - 2020	Accounting periods beginning on or after 1 January 2022	No material impact on the Financial Statements is expected
Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16)	Accounting periods beginning on or after 1 January 2022	No material impact on the Financial Statements is expected
Reference to the Conceptual Framework (Amendments to IFRS 3)	Accounting periods beginning on or after 1 January 2022	No material impact on the Financial Statements is expected

2.6 Changes in accounting policy and disclosures - 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.

Title	Implementation	Effect on Group
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	Accounting periods beginning on or after 1 January 2023*	No material impact on the Financial Statements is expected
IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts	Accounting periods beginning on or after 1 January 2023*	No material impact on the Financial Statements is expected
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practise Statement 2)	Accounting periods beginning on or after 1 January 2023*	A full impact assessment will be undertaken in due course
Definition of Accounting Estimate (Amendments to IAS 8)	Accounting periods beginning on or after 1 January 2023*	A full impact assessment will be undertaken in due course
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 16 Income Taxes)	Accounting periods beginning on or after 1 January 2023*	A full impact assessment will be undertaken in due course

Management currently foresees no material impact by the adoptions on the financial statements of the Group in the period of initial application. However, this will be assessed further upon implementation.

* As yet, none of these have been endorsed for use in the UK and will not be adopted until such time as endorsement has been confirmed.

3. Revenue

Revenue recognised in the Income Statement is analysed as follows:

	2023 £000	2022 £000
Revenue from airport charges	**21,604**	13,745
Concession revenues	**3,178**	1,714
Rental income	**2,188**	2,329
Total revenue	**26,971**	17,788

4. Other income

	2023 £000	2022 £000
Government grants, other grants & services rendered	**38,005**	39,975
	38,005	39,975

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 2023 and 2022 was as follows:

Revenue		2023 £000	2022 £000
Scottish Government	Operating subsidy	**37,882**	39,668
Scottish Government	Air Discount Scheme	**123**	135
Miscellaneous	Miscellaneous	**-**	172
		38,005	39,975
Capital			
Scottish Government	Operating subsidy and grants	**17,987**	36,198
and other bodies		**17,987**	36,198
		55,992	76,173

5. Group operating loss

This is stated after charging/(crediting):

	2023	2022
	£000	£000
Increase in fair value of investment properties	**(279)**	(19)
Depreciation of property, plant and equipment	**11,864**	9,813
Deferred subsidies release	**(14,946)**	(9,588)
Operating lease payments	-	-
Auditor's remuneration – audit services	**65**	45

6. Other gains & (losses)

	2023	2022
	£000	£000
Gain on disposals of property, plant and equipment	578	106
(Decrease) in fair value of investment properties	-	(9)
	578	97

7. Employee benefit expense

	2023	2022
	£000	£000
Wages and salaries	**28,955**	25,857
Social security costs	**3,284**	2,734
Pension costs	**6,757**	5,404
Other staff costs	**1,263**	885
	40,259	34,880

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

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

	2023	2022
	No.	No.
Administration	**27**	35
Air Discount Support (ADS)	**3**	4
Airport Fire Service	**190**	189
Apron Operations	**1**	1
Air Traffic Services	**118**	88
Air Traffic Management Services (ATMS)	**3**	31
Engineering	**21**	17
Head Office	**77**	75
Management	**25**	29
Security	**236**	226
	701	695

Directors' remuneration

	2023	2022
	£000	£000
Emoluments	244	279
Pension contributions	42	60

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

	2023	2022
	No.	No.
£0 to £5,000	-	-
£5,001 to £10,000	4	5
£10,001 to £20,000	-	-
£20,001 to £60,000	3	1
£60,001 to £145,000	-	1
£145,001 to £155,000	-	-
£155,001 to £165,000	1	1

The emoluments of the highest paid director were £124,412 (2022: £123,018) excluding pension contributions of £32,590 (2022: £32,444).

The emoluments of the Chair were £23,760 (2022: £23,328).

There are two directors for whom the Group made contributions during the year as members of the Highlands and Islands Airports Pension Scheme.

8. Finance (costs)/revenue

	2023	2022
	£000	£000
Bank interest receivable/(payable)	23	(9)
Other finance (loss)/income	(126)	-
Interest Right Of Use Asset	(10)	(101)
	(113)	(110)

9. Taxation

(a) Tax charged in the Income Statement

	2023	2022
	£000	£000
Current income tax:		
Current income tax	-	-
Amounts overprovided in previous years	-	-
Total current income tax	-	-
Deferred tax:		
Origination and reversal of temporary differences	-	-
Effect of decreased tax rate on closing liability	-	-
Total deferred tax	-	-
Tax expense in the Income Statement		
Income tax on continuing operations	-	-
The tax expense in the Income Statement is disclosed as follows:	-	-

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

	2023	2022
	£000	£000
Tax on defined benefit pension scheme	-	-
Total current income tax	-	-
Deferred tax:		
Deferred tax on defined benefit pension scheme	-	-
Total deferred tax	-	-
Tax expense in Statement of Other Comprehensive Income	-	-

9. Taxation (continued)

(c) Reconciliation of the total tax charge

The tax charge in the Income Statement for the year is higher than the standard rate of corporation tax in the United Kingdom of 19% (2022: 19%). The differences are reconciled below:

	2023	2022
	£000	£000
Accounting (loss) before income tax	**257**	(3,357)
Accounting (loss) multiplied by the UK standard rate of tax of 19% (2022: 19%)	**49**	(638)
Expenses not deductible for tax purposes	**21**	33
Tax losses carried forward	**87**	325
Tax losses utilised	**(238)**	(789)
Government grants exempt from tax	**(1,919)**	(1,767)
Pension provisions not tax deductible	**(37)**	1,058
Adjustment in respect of prior periods	-	-
Adjustment in respect of IFRS	**(168)**	70
Interest on redeemable shares	-	-
Adjustment relating to sale of assets	**50**	(19)
Adjustment relating to tax on UK GAAP	-	-
Net depreciation in excess of capital allowances	**2,143**	1,723
Chargeable gains	**10**	1
Share of JV not tax deductible	**2**	3
Deferred tax movement per note 9 (d)	-	-
Total tax charge reported in the Income Statement	-	-

9. Taxation (continued)

(d) Deferred tax

The deferred tax included in the Group and Company Balance Sheet and Income Statement is as follows:

	Balance Sheet		Income Statement	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Deferred tax liability				
Accelerated capital allowances	**12,866**	8,051	**4,815**	3,181
Revaluations of investment properties	**135**	203	**(68)**	52
	13,001	8,254	**4,747**	3,233
Deferred tax asset				
Accelerated capital allowances	-	-	-	-
Pensions	**1,449**	9,338	**(7,889)**	(2,451)
Tax losses carried forward	**2,183**	2,163	**20**	55
Deferred revenue	**12,497**	7,622	**4,875**	3,056
Deferred tax not recognised	**(3,128)**	(10,869)	**7,741**	2,573
	13,001	8,254	**4,747**	3,233
Disclosed on the Group and Company Balance Sheet and Income Statement:				
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 profit. There is insufficient evidence that this asset will be recovered to allow its recognition in the financial statements.

10. Property, plant and equipment

Group	Land and buildings freehold	Plant and equipment	Construction in progress	Total
	£000	£000	£000	£000
Cost:				
At 1 April 2021 (restated)	64,583	179,043	26,259	269,885
Additions	12	909	36,501	37,422
Disposals	(40)	(1,359)	(538)	(1,937)
Transfers	7,971	28,874	(36,845)	-
At 31 March 2022	72,526	207,467	25,377	305,370
Depreciation and impairment:				
At 1 April 2021 (restated)	(40,924)	(93,097)	-	(134,021)
Provided during the year	(2,768)	(7,045)	-	(9,813)
Disposals	29	1,343	-	1,372
At 31 March 2022	(43,663)	(98,799)	-	(142,462)
Net book value:				
At 31 March 2022	28,863	108,668	25,377	162,908
At 31 March 2021 (restated)	23,659	85,946	26,259	135,864

Group	Land and buildings freehold	Plant and equipment	Construction in progress	Total
	£000	£000	£000	£000
Cost:				
At 1 April 2022	72,526	207,467	25,377	305,370
Additions	55	756	19,554	20,365
Disposals	(3,181)	(4,929)	-	(8,110)
Impairment	-	-	(4,652)	(4,652)
Transfers	3,701	17,159	(20,860)	-
At 31 March 2023	**73,101**	**220,453**	**19,419**	**312,973**
Depreciation and impairment:				
At 1 April 2022	(43,663)	(98,799)	-	(142,462)
Provided during the year	(2,468)	(9,396)	-	(11,864)
Disposals	497	4,226	-	4,723
At 31 March 2023	**(45,634)**	**(103,969)**	**-**	**(149,603)**
Net book value:				
At 31 March 2023	**27,468**	**116,484**	**19,419**	**163,370**
At 31 March 2022	28,863	108,668	25,377	162,908

10. Property, plant and equipment (continued)

Company	Land and buildings freehold	Plant and equipment	Construction in progress	Total
	£000	£000	£000	£000
Cost:				
At 1 April 2021 (restated)	60,668	157,629	25,684	243,981
Additions	12	749	35,696	36,457
Disposals	(40)	(1,340)	(538)	(1,918)
Transfers	7,945	28,102	(36,047)	-
At 31 March 2022	68,585	185,140	24,795	278,520
Depreciation and impairment:				
At 1 April 2021	(35,040)	(82,686)	-	(117,726)
Provided during the year	(1,923)	(7,149)	-	(9,072)
Disposals	29	1,323	-	1,352
At 31 March 2022	(36,934)	(88,512)	-	(125,446)
Net book value:				
At 31 March 2022	**31,651**	**96,628**	**24,795**	**153,074**
At 31 March 2021 (restated)	25,628	74,943	25,684	126,255

Company	Land and buildings freehold	Plant and equipment	Construction in progress	Total
	£000	£000	£000	£000
Cost:				
At 1 April 2022	68,585	185,140	24,795	278,520
Additions	55	-	19,499	19,554
Disposals	(3,181)	(4,841)	-	(8,022)
Impairment	-	-	(4,652)	(4,652)
Transfers	3,701	16,680	(20,381)	-
At 31 March 2023	69,160	196,979	19,261	285,400
Depreciation and impairment:				
At 1 April 2022	(36,934)	(88,512)	-	(125,446)
Provided during the year	(2,388)	(8,422)	-	(10,830)
Disposals	497	4,135	-	4,632
At 31 March 2023	(38,825)	(92,819)	-	(131,644)
Net book value:				
At 31 March 2023	**30,335**	**104,160**	**19,261**	**153,756**
At 31 March 2022	31,651	96,628	24,795	153,074

11. Investment property

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

	Group 2023 £000	Company 2023 £000	Group 2022 £000	Company 2022 £000
Valuation at 1 April	**718**	**718**	727	727
Additions	**2,960**	**2,960**	64	64
Disposals	**-**	**-**	-	-
Fair value adjustment	**(279)**	**(279)**	(73)	(73)
Valuation as at 31 March	**3,399**	**3,399**	718	718

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 relied on historical transactional comparables.

The selected heritable properties forming part of Highlands and Islands Airports Limited landside assets were valued as at 31st March 2023 by an external valuer, Gerald Eve LLP, a regulated firm of Chartered Surveyors. The valuations were prepared in accordance with the RICS Valuation – Global Standards 2022 of the Royal Institution of Chartered Surveyors (RICS). We refer in this report to those Global Standards and the national standards and guidance set out in UK national supplement 2018 [collectively "the Standards"]. The valuations of these assets were on the basis of Fair Value, represented by Market Value.

This instruction falls within the definition of a Regulated Purpose Valuation (VPGA 1 of the Standards). All regulated Purpose Valuations are subject to audit by members of the Firm's Valuation review Group and the Firm's policy regarding the rotation of valuation personnel has been provided.

The Firm has provided Highlands and Islands Airports Limited with asset valuation advice since 2016.

The critical assumptions made relating to valuations are set out below:

	2023	2022
Yields (%)	**8.5% - 22%**	8.3% - 22.3%

12. Investments

(a) Investment in joint ventures

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

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

	2023	2022
	£000	£000
Share of the joint venture's balance sheet:		
Non-current assets	**(62)**	(41)
Current assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Share of other reserves	-	-
Share of net (liabilities)/assets	**(62)**	(41)

	2023	2022
	£000	£000
Share of the joint venture's results:		
Revenue	**22**	23
Net operating expenses	**(34)**	(62)
Loss before taxation	**(12)**	(39)
Tax expense	**(18)**	21
Profit/(Loss) after taxation	**(30)**	(18)

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

(b) Details of Group undertakings

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
Highland Airways Limited	Ordinary shares	100%	Dormant
Joint ventures:			
Inverness Airport Business Park Limited	Ordinary shares	34%	Property investment
Inverness Airport Business Park Limited	Redeemable shares	87%	Property investment

Company	Subsidiary undertakings	Joint ventures	Total
	£000	£000	£000
Cost:			
At 1 April 2021	10	1,988	1,998
Acquisitions	-	-	-
Additions	-	-	-
Disposals	-	-	-
At 31 March 2022	10	1,988	1,998
At 1 April 2021	-	-	-
Amortisation during the year	-	-	-
Impairment charges	-	-	-
Disposals	-	-	-
At 31 March 2022	-	-	-
Net book value:			
At 31 March 2022	10	1,988	1,998
At 31 March 2021	10	1,988	1,998

	£000	**£000**	**£000**
Cost:			
At 1 April 2022	10	1,988	1,998
Acquisitions	-	-	-
Additions	-	-	-
Disposals	-	-	-
At 31 March 2023	**10**	**1,988**	**1,998**
Amortisation and impairment:			
At 1 April 2022	-	-	-
Amortisation during the year	-	-	-
Impairment charges	-	-	-
Disposals	-	-	-
At 31 March 2023	-	-	-
Net book value:			
At 31 March 2023	**10**	**1,988**	**1,998**
At 31 March 2022	10	1,988	1,998

13. Intangible fixed assets

Group	Total
	£000
Cost:	
At 1 April 2021	540
Acquisitions	-
Additions	-
Disposals	-
At 31 March 2022	540
Amortisation and impairment:	
At 1 April 2021	(485)
Amortisation during the year	-
Impairment charges	-
Disposals	-
At 31 March 2022	(485)
Net book value:	
At 31 March 2022	55
At 31 March 2021	55
Cost:	
At 1 April 2022	540
Acquisitions	-
Additions	-
Disposals	-
At 31 March 2023	**540**
Amortisation and impairment:	
At 1 April 2022	(485)
Amortisation during the year	-
Impairment charges	-
Disposals	-
At 31 March 2023	**(485)**
Net book value:	
At 31 March 2023	**55**
At 31 March 2022	55

Intangibles relate to leasing contracts acquired as part of the acquisition of Dundee Airport Limited. This intangible asset was grant funded. The asset was initially recorded at it's fair value of £170,500 and subsequently measured under the cost model. The assets are being amortised over the periods over which the contractual cash flows are expected to arise. Amortisation is included within administrative expenses. The intangible assets have a useful life of 50 years at 31 March 2023.

The following useful lives were used in the calculation of amortisation:

Intangible Assets – 7 – 60 years in relation to the lease contracts

14. Trade and other receivables

Group

	2023	2022
	£000	£000
Trade receivables	**3,761**	3,413
Less: provision for impairment of receivables	**(36)**	(73)
Trade receivables net of impairment	**3,725**	3,340
Receivables from joint ventures	**1,861**	1,911
Prepayments and other accrued income	**1,351**	1,132
Other receivables	**1,926**	1,879
	8,864	8,262

Company

	2023	2022
	£000	£000
Trade receivables	**3,279**	3,220
Less: provision for impairment of receivables	**(21)**	(66)
Trade receivables net of impairment	**3,258**	3,154
Receivables from joint ventures	**1,861**	1,911
Prepayments and other accrued income	**1,268**	1,023
Other receivables	**4,830**	5,480
	11,217	11,568

15. Inventories

	Group	**Company**	Group	Company
	2023	**2023**	2022	2022
	£000	**£000**	£000	£000
Aviation fuel	**39**	**-**	33	2
Spares	**65**	**65**	116	114
	104	**65**	149	116

16. Cash and cash equivalents

For the purposes of the Group Statement of Cash Flows, cash and cash equivalents comprise the following:

Group	2023	2022
	£000	£000
Cash at bank	3,730	6,661
Short term deposits	-	-
	3,730	6,661

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

Company	2023	2022
	£000	£000
Cash at bank	3,304	6,360
Short term deposits	-	-
	3,304	6,360

17. Trade and other payables

Group	2023	2022
	£000	£000
Loans (note 18)	2,165	1,983
Trade payables	1,019	3,670
IFRS lease creditor	375	409
Other creditors and accruals	12,555	10,592
	16,114	16,654

Company	2023	2022
	£000	£000
Loans (note 18)	2,083	1,901
Trade payables	1,007	3,556
Amounts owed to other Group companies	1,229	379
IFRS lease creditor	375	409
Other creditors and accruals	10,945	9,752
	15,637	15,997

18. Loans

Group	2023	2022
	£000	£000
Unsecured loans wholly repayable within five years, repayable in half-yearly instalments	**5,704**	6,057
Less repayable within twelve months (note 17)	**(2,165)**	(1,983)
	3,539	4,074

Instalments on the loans included above are repayable as follows:

between one and two years	**1,739**	1,784
between two and five years	**1,800**	2,290
after five years	**-**	-
	3,539	4,074

Company	2023	2022
	£000	£000
Unsecured loans wholly repayable within five years, repayable in half-yearly instalments	**5,622**	5,975
Less repayable within twelve months (note 17)	**(2,083)**	(1,901)
	3,539	4,074

Instalments on the loans included above are repayable as follows:

between one and two years	**1,739**	1,784
between two and five years	**1,800**	2,290
after five years	**-**	-
	3,539	4,074

At 31 March 2023 the Group and company had 6 loans outstanding (2022: 9). The loans are repayable to the Scottish Ministers at an interest rate between 1.11% and 4.52%. The loans are repayable over 4 and 5 years, by half yearly instalments.

19. Deferred Subsidies

Group	2023	2022
	£000	£000
Balance at 1 April	**156,480**	129,932
Subsidies receivable	**17,987**	36,198
Release to Income Statement	**(14,946)**	(9,588)
Release against asset disposals	**(332)**	(62)
Balance at 31 March	**159,189**	156,480

19. Deferred Subsidies (continued)

Company	2023	2022
	£000	£000
Balance at 1 April	**146,602**	120,271
Subsidies receivable	**17,931**	35,241
Release to Income Statement	**(14,189)**	(8,848)
Release against asset disposals	**(813)**	(62)
Balance at 31 March	**149,531**	146,602

20. Financial Instruments

Credit risk

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

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

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2023 and 31 March 2022 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Trade and other payables						
At 31 March 2023	**-**	**13,949**	**-**	**-**	**-**	**13,949**
At 31 March 2022	-	14,671	-	-	-	14,671
Borrowings						
At 31 March 2023	**-**	**-**	**2,165**	**3,539**	**-**	**5,705**
At 31 March 2022	-	-	1,983	4,074	-	6,057

20. Financial Instruments (continued)

Fair values of financial assets and financial liabilities

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

	Carrying amount		**Fair value**	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Financial assets				
Loans and receivables	**-**	-	**-**	-
Trade and other receivables	**6,478**	5,901	**6,592**	6,351
Loans receivable	**2,386**	1,911	**2,386**	2,361
Financial liabilities				
Trade and other payables	**13,949**	14,671	**13,949**	14,671
Borrowings	**5,705**	6,057	**5,705**	6,057

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.

21. Pensions

The Group operates for its employees two defined benefit pension schemes – the Highlands and Islands Airports Pension Scheme (HPS) and the Tayside Superannuation Fund (TSF) – and one defined contribution scheme, the People's Pension Scheme (PPS).

As at 31 March 2023, there were 639 (2022: 608) Group members participating in the HPS and 68 (2022: 68) participating in the TSF. Both schemes are operated and located in the United Kingdom and require contributions to be made to separately administered funds.

As at 31 March 2023, there were 277 (2022: 280) Group members participating in the PPS. There were 47 (2022: 62) Company members participating in the PPS. This scheme is monitored by HIAL management through its actuaries.

The values of the scheme obligations have been determined by a qualified actuary based on the actuarial valuation as at 31 December 2022 for the HPS and the valuation as at 31 March 2023 for the TSF, both updated to the balance sheet date. 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.

21. Pensions (continued)

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

At 31 March 2022	**HPS £000**	**TSF £000**	**Total £000**
Scheme assets at fair value			
Equities	41,115	8,850	**49,965**
LDI	40,845	-	**40,845**
Gilts	-	633	**633**
Other bonds	-	1,490	**1,490**
Property	-	1,356	**1,356**
Diversified growth	43,325	-	**43,325**
Other	27,155	13	**27,168**
Cash	2,370	295	**2,665**
Fair value of scheme assets	154,810	12,637	**167,447**
Present value of scheme liabilities	(190,351)	(14,447)	**(204,798)**
Defined benefit pension scheme deficit	**(35,541)**	**(1,810)**	**(37,351)**

At 31 March 2023	**HPS £000**	**TSF £000**	**Total £000**
Scheme assets at fair value			
Equities	31,932	8,834	**40,766**
LDI	29,740	-	**29,740**
Gilts	-	246	**246**
Other bonds	-	1,713	**1,713**
Property	-	1,220	**1,220**
Diversified growth	23,883	-	**23,883**
Other	25,766	9	**25,775**
Cash	11,415	329	**11,744**
Fair value of scheme assets	122,736	12,351	**135,087**
Present value of scheme liabilities	(131,745)	(9,138)	**(140,883)**
Defined benefit pension scheme deficit	**(9,009)**	**3,213**	**(5,796)**

21. Pensions (continued)

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 2022

	HPS £000	TSF £000	Total £000
Recognised in Income Statement			
Current service cost	8,535	745	9,280
Past service cost	-	-	-
Recognised in arriving at operating loss	8,535	745	9,280
Administration cost	419	3	422
Interest cost on scheme assets	(2,954)	(244)	(3,198)
Interest cost on obligations	4,101	295	4,396
Other finance cost	1,566	54	1,620

	HPS £000	TSF £000	Total £000
Taken to the Statement of Comprehensive Income			
Return on plan assets in excess of interest	2,911	385	3,296
Experience gain/(loss) on liabilities	231	(18)	213
Change in demographic assumptions	13,754	-	13,754
Change in financial assumptions	12,437	949	13,386
Other actuarial gain/(loss)	-	-	-
Actuarial losses recognised in the Statement of Comprehensive Income	**29,333**	**1,316**	**30,649**

Year ended 31 March 2023	HPS £000	TSF £000	Total £000
Recognised in Income Statement			
Current service cost	7,092	590	7,682
Past service cost	-	-	5
Recognised in arriving at operating loss	7,092	590	7,687
Administration cost	382	3	385
Interest cost on scheme assets	(4,040)	(332)	(4,372)
Interest cost on obligations	4,907	376	5,283
Other finance cost	1,249	47	1,296

	HPS £000	TSF £000	Total £000
Taken to the Statement of Comprehensive Income			
Return on plan assets in excess of interest	(42,291)	(868)	(43,159)
Experience gain/(loss) on liabilities	(17,142)	(664)	(17,806)
Change in demographic assumptions	-	-	-
Change in financial assumptions	84,499	6,936	91,435
Other actuarial gain/(loss)	-	-	-
Actuarial losses recognised in the Statement of Comprehensive Income	**25,066**	**5,404**	**30,470**

21. Pensions (continued)

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

	HPS £000	TSF £000	Total £000
Defined benefit obligation at 1 April 2021	205,899	14,415	220,314
Current service cost	8,535	745	9,280
Past service cost	-	-	-
Interest cost	4,101	295	4,396
Benefits paid	(2,837)	(186)	(3,023)
Contributions by scheme participants	1,075	109	1,184
Change in demographic assumptions	(13,754)	-	(13,754)
Experience (gain)/loss on liabilities	(231)	18	(213)
Change in financial assumptions	(12,437)	(949)	(13,386)
Defined benefit obligation at 31 March 2022	**190,351**	**14,447**	**204,798**

	HPS £000	TSF £000	Total £000
Defined benefit obligation at 1 April 2022	190,351	14,447	204,798
Current service cost	7,092	590	7,682
Past service cost	-	-	-
Interest cost	4,907	376	5,283
Benefits paid	(4,356)	(110)	(4,466)
Contributions by scheme participants	1,108	107	1,215
Change in demographic assumptions	-	-	-
Experience (gain)/loss on liabilities	17,142	664	17,806
Change in financial assumptions	(84,499)	(6,936)	(91,435)
Defined benefit obligation at 31 March 2023	**131,745**	**9,138**	**140,883**

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

	HPS £000	TSF £000	Total £000
Fair value of scheme assets at 1 April 2021	146,440	11,826	158,266
Interest on scheme assets	2,954	244	3,198
Contributions by employer	4,686	262	4,948
Contributions by scheme participants	1,075	109	1,184
Benefits paid	(2,837)	(186)	(3,023)
Administration costs	(419)	(3)	(422)
Other actuarial gains	-	-	-
Return on plan assets less interest	2,911	385	3,296
Fair value of scheme assets at 31 March 2022	154,810	12,637	167,447

21. Pensions (continued)

	HPS £000	TSF £000	Total £000
Fair value of scheme assets at 1 April 2022	154,810	12,637	167,447
Interest on scheme assets	4,040	332	4,372
Contributions by employer	9,807	256	10,063
Contributions by scheme participants	1,108	107	1,215
Benefits paid	(4,356)	(110)	(4,466)
Administration costs	(382)	(3)	(385)
Other actuarial gains	-	-	-
Return on plan assets less interest	(42,291)	(868)	(43,159)
Fair value of scheme assets at 31 March 2023	**122,736**	**12,351**	**135,087**

The Group expects to contribute £5,213,000 to its defined benefit pension plans in 2023/24.

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 2023 (%)	2022 (%)	TSF 2023 (%)	2022 (%)
Main assumptions:				
Rate of salary increases	**3.05**	3.35	**3.90**	4.15
Rate of increase in pensions in payment*	**3.35**	3.65	**2.90**	3.15
Discount rate	**4.80**	2.60	**4.80**	2.60
RPI Inflation	**3.35**	3.65	**3.30**	4.15

*HPS only - The assumed rate of increase is 3.35% for RPI and 3.05% for CPI.

Discount rate

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

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 S3PA table has been used making allowance for future improvements to be in line with the 2021 CMI projection model with a long-term improvement rate of 1.25% per annum and the projection is made based on the individual year of birth of each member.

21. Pensions (continued)

For the TSF, the S3PA table has been adjusted by 110% (to reflect the particular characteristics of the scheme) making allowance for future improvements to be in line with the 2020 CMI projection model with a long term improvement rate of 1.25% p.a. with a smoothing parameter of 7.5 and the projection is made based on the individual year of birth of each member.

Sensitivities - HPS

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):

	Salary increased by 0.50%	**Reduce discount rate by 0.50%**	**Increase inflation by 0.50%**
	£000	**£000**	**£000**
Fair value of scheme assets	122,736	122,736	122,736
Present value of defined benefit obligation	(125,586)	(135,393)	(134,206)
Defined benefit pension scheme deficit	(2,850)	(12,657)	(11,470)

Sensitivities - TSF

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

	+0.1%	**-0.1%**	**+1 year**	**-1 year**
	£000	**£000**	**£000**	**£000**
Projected service cost	254	272	274	253
Present value of defined benefit obligation	8,959	9,322	9,404	8,879

The projected pension expense for the year ending 31 March 2024 is as follows:

	HPS	**TSF**	**Total**
	£000	**£000**	**£000**
Current service cost	3,229	263	**3,492**
Net interest in defined benefit liability	324	(160)	**164**
Administration expenses	382	3	**385**
Total	3,935	106	**4,041**

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

	2023	2022	2021	2020	2019
	£000	£000	£000	£000	£000
HPS					
Fair value of scheme assets	**122,736**	154,810	146,440	124,921	129,996
Present value of defined benefit obligation	**(131,745)**	(190,351)	(205,899)	(151,478)	(158,056)
(Deficit)	**(9,009)**	(35,541)	(59,459)	(26,557)	(28,060)
Experience adjustment on plan liabilities	-	-	-	-	-
Experience adjustments on plan assets	**(42,291)**	2,911	18,936	(8,817)	1,797

21. Pensions (continued)

	2023	2022	2021	2020	2019
	£000	£000	£000	£000	£000
TSF					
Fair value of scheme assets	**12,351**	12,637	11,826	8,825	10,015
Present value of defined benefit obligation	**(9,138)**	(14,447)	(14,415)	(10,413)	(12,433)
(Deficit)	**3,213**	(1,810)	(2,589)	(1,588)	(2,418)
Experience adjustment on plan liabilities	-	-	-	-	-
Experience adjustments on plan assets	**(868)**	385	2,790	(734)	184

22. Share Capital

	Group and Company	
	2023	2022
	£000	£000
Authorised shares	**50**	50
Allotted, called up and fully paid ordinary shares of £1 each	**50**	50

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

23. Cash generated by/(used in) operations

Group

	2023	2022
	£000	£000
Operating profit / (loss)	**1,638**	(1,609)
Depreciation of property, plant and equipment	**11,864**	9,813
Decrease/(increase) in inventories	**45**	26
(Increase)/Decrease in trade and other receivables	**(577)**	85
Decrease in trade and other payables	**(724)**	651
Deferred subsidies released	**(14,667)**	(9,650)
Fair value movement on investment properties	**257**	9
Difference between pension contributions and charges	**2,381**	4,332
Gain on disposal of property, plant and equipment	**(535)**	97
Cash (used in)/generated by operations	**5,594**	3,754

23. Cash generated by/(used in) operations (continued)

Company	2023 £000	2022 £000
Operating profit / (loss)	**699**	568
Depreciation of property, plant and equipment	**10,830**	9,072
Decrease/(increase) in inventories	**51**	45
(Increase)/Decrease in trade and other receivables	**376**	(1,656)
Deferred subsidies released	**(13,910)**	(7,927)
Fair value movement on investment properties	**(257)**	(4)
Difference between pension contributions and charges	**(2,715)**	927
Gain on disposal of property, plant and equipment	**(535)**	123
Cash (used in)/generated by operations	**6,003**	1,137

24. Lease liabilities

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 1.94%.

As a Lessee

The company leases Campbeltown Airport as well as small equipment such as vending machines and photocopiers. Leases are negotiated on an individual basis and contain a wide range of different terms and conditions. The main features of the leases are summarised below:

Campbeltown Airport is rented for a period of 15 years. The lease includes an option to break the lease after 10 years, by giving no less than 12 months' notice. The lease payments are fixed, with a rent review every five years allowing for an increase in rent payments in line with RPI.

Information about leases for which the company is a lessee is presented below.

i. Right-of-use assets

The company classifies its right-of-use assets in a consistent manner to property, plant and equipment.

ii. Lease liabilities

Lease liabilities included in the Statement of Financial Position at 31 March 2023 are analysed as follows:

	2023 £000	2022 £000
Current	375	36
Non-current	-	373
	375	409

24. Lease liabilities (continued)

The lease liability is secured on the related underlying assets. The undiscounted maturity analysis of the lease liability as at 31 March 2023 is as follows:

	2023	2022
	£000	£000
Less than one year	-	-
One to five years	-	36
More than five years	375	373
Total undiscounted liabilities at 31 March 2023	**375**	409

For interest expense in relation to leasing liabilities, refer to Note 8 *Finance costs.*

Total cash outflows in respect of leasing liabilities in the year to 31 March 2023 is £56,120 (2022: £107,670).

The company has elected not to recognise right-of-use assets and lease liabilities for leases that are short-term and/or leases of low-value items. The company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

25. Related party disclosure

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

		Sales to related party £000	**Purchases from related party £000**	**Amounts owed by related party £000**	**Amounts owed to related party £000**
Related party					
Joint ventures:					
Inverness Airport Business Park Ltd	**2023**	-	**26**	**2,386**	-
	2022	-	10	2,361	-
In relation to key management personnel:					
The Law Society of Scotland	**2023**	-	-	-	-
	2022	-	17	-	-
Energy Aviation Services Ltd	**2023**	-	**19**	-	**7**
	2022	-	16	-	7
Intercompany Balances					
Dundee Airport Limited	**2023**	**867**	-	**2,905**	-
	2022	652	-	3,602	-
Airport Management Services Limited	**2023**	**307**	**8,775**	-	**1,229**
	2022	293	7,729	-	379

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

25. Related party disclosure (continued)

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 the Scottish Ministers (the ultimate controlling party of the Group). The significant transactions between the Group and Scottish Ministers are the subsidiaries, disclosed in Note 4 *Other Income*.

Controlling party

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

26. Commitments and contingencies

Capital Commitments

At 31 March 2023, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £6,835,000 for the Group (2022: £3,574,000) and £6,835,000 for the Company (2022: £3,567,000).

Contingent liabilities

The Company has guaranteed the bank overdraft of a joint venture to the extent of £100,000. This has not been utilised at 31 March 2023. 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.

The Company has granted a security over the terminal building at Inverness Airport and the New Century House building to the Highlands and Islands Airports Pension Scheme's Trustee's, since 2019 and 2021 respectively, in relation to the Company's obligations to the Scheme. The security over the New Century House building was satisfied on 12 September 2023.

27. Capital management

The primary objective of the Group's capital management is to ensure that it supports the operation of the business and maximises 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 2022 and 31 March 2023.

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

28. Events after the reporting period

Events after the reporting period represent those events which occur between the end of the reporting period (i.e., 31 March 2023) and the date when the Annual Report and Accounts are authorised for issue. Adjusting events are those providing evidence of conditions existing at the end of the reporting period, and require the financial statements to be adjusted, whereas non-adjusting events are indicative of conditions that arise after the reporting period. Events which occur after the date of authorisation for issue are not reflected in these accounts.

CORPORATE INFORMATION

Company Number

SC097647

Registered Office

Head Office
Inverness Airport
Inverness
IV2 7JB

Auditor

Azets Audit Services

Solicitors

Addleshaw Goddard LLP

Actuaries

Barnett Waddingham LLP

Bankers

Royal Bank of Scotland