

EXTRACT OF MINUTES OF THE 146TH BOARD MEETING OF HIGHLANDS AND ISLAND AIRPORTS LIMITED HELD AT HIAL HEAD OFFICE ON WEDNESDAY 22 MARCH 2006 AT 10.00 AM

Present:

Mr A Matheson	Chairman
Mr I Lyon	Managing Director
Mr S Edmond	
Dr A Goodlad	
Mr G Johnston	
Miss S MacLennan	
Mrs L Phipps	

In Attendance:

Mr A Wilson	Representing Scottish Ministers
Miss J Thornton	Financial Controller/Company Secretary

Item 1 – Apologies

There were no apologies for absence

The Chairman welcomed the two new Board Members, Mrs Linda Phipps and Dr Charles A Goodlad, to their first HIAL Board Meeting. Linn and Alistair were appointed on 1 March 2006 as a result of an extensive appointment process overseen by the Office of Public Appointments.

The Chairman also wanted to record formally and with great sadness the death of Margaret Ewing, MSP. Margaret had been a great friend and supporter of HIAL and had always been very approachable. The Chairman would write to her husband, Fergus, sending our condolences.

Item 2 – Approval of Minutes of 3 February 2006

The minutes of the previous meeting held on 3 February 2006 were approved and signed by the Chairman.

Item 3 – Matters arising from the Minutes

There were no matters arising from the minutes, not covered on the agenda.

Item 4 – Finance

4.1. *Monthly Accounts, Outturn and Subsidy Provision*

The Board noted the February accounts and the management team was commended on the reduction in overtime costs.

4.2. *Traffic Statistics*

Board members were pleased to note the increased military training activity at Campbeltown.

4.3. *Scottish Executive Annual Subsidy Offer*

The Board authorised acceptance of the subsidy for 2006/07 of £22.7 million and Miss Thornton would write to the Scottish Executive accordingly.

4.5. *Western Isles PSO*

Mr Lyon explained the background. An anomaly had been identified in that inter-Orkney and inter-Shetland island services continued to receive distance related rebate whereas the rebate for inter-Western Isles services was removed with all other rebates as part of HIAL's charges review with effect from January 2005. For 2005/06, as this was the final year of the current PSO, the Scottish Executive had underwritten the cost to Western Isles Council. After discussion with Scottish Executive colleagues, HIAL agreed to a reduction in its subsidy for 2006/07 in the region of £150,000 to support the Western Isles PSO for the year. HIAL will revisit the charging position over the next year.

Item 5 – Corporate

5.1. *Health and Safety*

Mr Lyon elaborated on the comments that we are proposing moving to a quantitative rather than qualitative basis for Health and Safety reporting. He hoped the draft new basis would be available for the April Board Meeting.

5.2. *Inverness Airport PFI*

Mr Lyon talked the Board through the paper in terms of the current financial position of Inverness Airport.

Miss Thornton updated the Board on the ongoing relationship between HIAL and IATL. HIAL's legal and tax advisors were investigating the possibility of having the IATL business back into HIAL. A draft business transfer agreement has been prepared. The Board agreed that this would be desirable and delegated powers to sign the agreement to Mr Lyon, subject to all sets of advisors being content that this is the appropriate structure going forward.

5.3. *Inverness Airport Business Park*

The Board noted the update.

5.4. *Inverness Airport Masterplan*

The finalisation of the Masterplan had been delayed due to negotiations in respect of the PFI buyout. As the purchase of IATL is now complete the Masterplan is now being progressed and will be presented to the Board for approval at the April Board meeting.

5.5. *HIA Pension Scheme : Update*

Mr Johnston updated the new Board members on the history leading up to the establishment of HPS. The Chairman thanked the HPS Trustees for their work.

5.6. *Insurance renewal 2006/07*

The Board queried the need for marine insurance and Miss Thornton confirmed that this was to provide cover for Fast Rescue Craft. The Board was pleased to note that the increase had been contained to 0.9% above last year and endorsed renewal.

5.7. *Public Relations Brief*

The Board commended the positive media statements issued since the last meeting. The Chairman explained that he had been pleased with the outcome of the MSP briefing in Edinburgh on 7 February but that there had been a more disappointing

response for the MP briefing in London the following day. The future format for that briefing will be reviewed. The Board will be meeting the Minister for dinner on 27 April.

5.8. *Corporate Plan (Final Draft)*

Mr Lyon explained that in advance of the next Board meeting a section within the plan would be developed which would outline a series of key benchmarks and targets. He wants the document to be a working document defining actions and business targets and to align objectives and responsibilities. The Board commented on the detail of the report. The final version of the plan will be submitted to the April Board meeting for approval.

5.9. *Stornoway Masterplan*

HIAL is not required by DfT to prepare Masterplans for any of our airports other than Inverness. It is, however, a good business planning tool so we intend to roll these out to all airports starting with Stornoway. The main initial findings are that no major increases to current infrastructure are required to accommodate future forecast needs. It was suggested that the plan should include reference to oil exploration activity.

At Stornoway we are looking at making the best use of surplus resources and Mr Lyon and Mr Matheson met with Stornoway Trust on 16 March to discuss our proposals. The intention is to redevelop land for uses such as affordable housing using the capital receipt from the Wick land sale as seed capital. Where possible we intend to lease the land rather than outright sale. The Scottish Executive has given approval in principal for HIAL to progress this. The Board noted the position.

5.10. *Aid of a Social Character – Update*

This Scheme has been introduced by the Scottish Executive. It will be known as the “Air Discount Scheme”. The anticipated start date is subject to EU approval and residents will need to register to take advantage of the reduction of 40% on the core airline fare. HIAL will be involved in the administration of the scheme and Mr Wilson thanked HIAL for their support. It was confirmed that all policy matters would remain with the Scottish Executive and that the criteria for eligibility is main residency. Routes currently operated under Public Service Obligations (PSOs) are not part of the scheme. The Board was content that HIAL assist SE with the scheme provided all HIAL costs are covered and HIAL acts purely as manager/administrator of the scheme.

6. Operations

6.1. *Operational Amelioration*

The Chairman explained to the new board members that the intention of the amelioration process is to tackle disproportionate levels of regulation and cost at our airports. It is, however, a difficult task to persuade the UK Civil Aviation Authority to move away from their rigid standards despite other countries operating to different standards. Board members were pleased to note that the Company had been awarded a Maintenance of Competency to allow us to revalidate certain grades of Fire Service staff in-house. This is an excellent result and will be recognised in the local and industry press. Credit was due to all airports who were involved in the process. The Board noted the position.

6.2. *Inverness Radar*

Whilst progressing Phase 1 of the radar project our discussions with the RAF have indicated that the success of the project is heavily dependent on their co-operation. An update should be available at the April Board Meeting. Phase 1 and Phase 2 of

the project are separate but by doing Phase 1 some parts of Phase 2 will also be addressed. The likely operational timescale has now slipped to the summer season of 2007. The Board asked about capital approval and Mr Lyon confirmed that the Board would be asked for its approval in due course.

7. Marketing and Route Development

7.1. *Commercial/Marketing Brief*

The Board has an outstanding commitment to invite Loganair and/or Eastern Airways to lunch for an informal discussion on their operation. In respect of advertising routes available at Inverness there is a leaflet going out to households imminently and the website is being developed which should enable us to advertise through the website. We are also working on re-branding and this will be presented to the Board at a future date. As HIAL now owns the Inverness terminal building there is also an opportunity to advertise routes more prominently within the terminal.

7.2. *Airport Consultative Committees Summary*

Consultative Committees are held for all airports at varying levels of attendance. The Board receives regular updates on each of these meetings. The Board noted the minutes of Benbecula, Stornoway and Wick Airport Consultative Committee meetings and of the Kintyre Initiative Working Group meeting.

8. Capital Expenditure

8.1. *Sumburgh Airport: Partnership Update/Runway 09/27 Extension Update*

Mr Lyon and Mr Wilson would be attending a meeting of the Sumburgh Airport Strategic Partnership tomorrow. Items on the agenda include the Gateway Project and the official opening of the runway extension.

In respect of the Gateway Project, HIAL has set aside a budget of £50,000 in line with similar projects recently carried out at Islay, Kirkwall, Stornoway and Wick. The idea of a Gateway was for HIAL to provide our terminal buildings as a vehicle for other agencies to use to advertise the local community. Initial cost estimates for the Sumburgh Gateway are £1 - £1.5 million. This will be discussed tomorrow at the Partnership meeting but HIAL has already made it clear that we contributed substantially to the runway, including covering the contribution originally envisaged from HIE and would not wish to commit further expenditure for the Gateway over and above the budget of £50,000.

The Board was pleased to note the continued good progress of the runway extension project.

9. Date of Next Meetings

9.1. Board Meeting - Friday 28 April 2006 at 10.00 am at the Scottish Executive, Edinburgh. This will be preceded by a dinner on Thursday 27 April 2006 with the Minister and Scottish Executive colleagues at 7.30 pm.

9.2. Awayday - Tuesday 16 May at 9.30 am at Inverness

9.3. Future Board dates.

It was agreed that the date of 4 August should remain but noted that Linn Phipps would not be present for that meeting. The dates for the awayday scheduled for 15 August and Board meeting scheduled for 20 October would be reconsidered and Miss

Thornton would circulate alternative dates on the understanding that if no suitable alternative date can be found the status quo will remain.

10. Any Other Business

The Chairman paid tribute to Stuart Edmond as this was his last HIAL Board Meeting. He thanked Stuart on behalf of the Board for his valuable contribution over the years and the detailed review and ideas so consistently produced. He also thanked him personally for the excellent ambassadorial work done on HIAL's behalf on many different occasions all of which contributed to a marked improvement in HIAL's public profile. He wished both Stuart and May the very best for a long and happy retirement. Mr Edmond responded saying it had been a great privilege to work with HIAL, a great deal had been achieved and he wished the Company and the Board all the best for the future.