

**EXTRACT OF MINUTES OF THE 148TH BOARD MEETING OF
HIGHLANDS & ISLANDS AIRPORTS LTD HELD AT THE MACHRIE
HOTEL, ISLAY ON THURSDAY 8 JUNE 2006 AT 3.00PM**

Present:

Mr A Matheson	Chairman
Mr I Lyon	Managing Director
Mr 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

Item 2 – Approval of Minutes of 28 April 2006

The minutes of the previous meeting held on 28 April 2006 were approved and signed by the Chairman.

Item 3 – Matters arising from the Minutes

Air Discount Scheme

Board members enquired about the timescales involved in issuing ADS cards to eligible people. Mr Wilson advised that although there have been a few teething problems, on the whole, progress to date has been good. If individuals were experiencing particular issues, he encouraged them to contact the centre in Edinburgh. He confirmed that the issuing of cards to date has been done by the centre in Edinburgh but that this will be transferred to the ADS unit based at HIAL once the initial rush had passed. Currently HIAL is purely providing administrative support for the scheme.

Item 4 – Finance

4.1. *Monthly Accounts, Outturn and Subsidy Provision*

The Board noted the monthly management accounts for April 2006 which is the first month of the new financial year.

4.2. *Approval of Statutory Accounts*

The Chairman asked Mr Johnston, as Chairman of the Audit Committee to take the Board through the accounts and highlight any salient points. The Board asked questions as these arose.

The Chairman thanked Mr Johnston for his briefing. The Board gave approval that:

- The auditors report to the Board be accepted

- The accounts for HIAL, IATL and AMSL be signed by the Chairman and the Managing Director
- The letters of representations for HIAL and IATL be signed by the Chairman of the Audit Committee and the Company Secretary

The relevant documents were signed at the end of the meeting.

4.3. *Audit Committee Report*

The Audit Committee met on 26 May and the minutes of that meeting were noted by the Board. Mr Johnston, as Chairman of the Committee, explained the items considered by the Committee. The Board noted the recommendations and agreed the following:

- To adhere to the FRS 17 assumptions proposed by the Actuary
- To reappoint Tenon as internal auditors and Johnston Carmichael as tax advisors for 2006/07 and 2007/08
- To approve the internal audit programme for 2006/07
- To reappoint Ernst & Young as external auditors for 2006/07. This would be recorded at the Annual General Meetings in August.

Review of Matters Reserved for Decision by the Board

The Board considered the schedule including the amendments made by the Audit Committee. Board members noted the comment on personal liability under Health and Safety and recognised their liability. It was confirmed that HIAL arranges Director's and Officer's indemnity insurance and that this is a protection if Board members act in good faith and not fraudulently or dishonestly. The Board agreed to approve the schedule of matters reserved for decision by the Board

4.4. *Travel and Subsistence Policy*

The existing travel and subsistence policy was discussed. Other public bodies such as the Highland Council and the Scottish Executive have moved away from fixed rates of subsistence to actual reimbursement of expenses. It was recognised that staff adhere to the current policy but it was felt that the policy is no longer appropriate and should be amended to reimburse expenditure incurred rather than provide fixed sums in excess of the costs incurred. The Board authorised Mr Lyon to commence discussions with the Trades Unions on this basis and asked that they be kept updated on progress.

Item 5 – Corporate

5.1. *Health and Safety*

The Board noted the update.

5.2. *Inverness Airport PFI*

Miss Thornton asked the Board to reconfirm the authority previously given in February to Mr Lyon to sign the Business Transfer Agreement and letter amending the operating agreement. Further work has been done with our advisors and subject to clearance being received from HM Revenue and Customs the hive up will go ahead by the end of this month. This will have the economic effect of all IATL's transactions being accounted for in HIAL from 1 April 2006.

The Board reiterated its authority to Mr Lyon to sign the Business transfer agreement and letter of amendment to the operating agreement and noted that papers relating to a dividend are likely to be circulated for approval prior to the next Board meeting.

5.3. *Inverness Airport Business Park*

Mrs Phipps asked for more information on the maintenance, repair and overhaul facility (MRO) and the rail halt. Mr Lyon explained the background to discussion on the potential for a maintenance hangar at Inverness airport. HIE had engaged consultants two years ago to prepare initial studies. At that time there appeared to be a limited market. The recent study was a more detailed follow up to the original study but there is still a limited prospect of attracting an operator and any investment would be significant.

The rail halt is being promoted strongly by the Highland Rail Partnership and is supported by Hitrans. The service would predominately be a shuttle service between Inverness and the airport and Elgin and the airport.

The Board noted the minutes of the last IABP meeting and the annual accounts for IABP to 31 March 2006.

5.4. *Inverness Airport Masterplan*

Consultation with key customers and stakeholders is going well and we are on target to present the final plan to DfT by the end of the calendar year. The Board requested advance notice of the public meeting dates as soon as possible.

5.5. *HIA Pension Scheme: Update*

Legislative Changes – A-Day and Age Discrimination

Certain changes to the scheme are required to comply with recent legislation. The A-Day interim Deed has been prepared to enable the HPS Trustees to take advantage of helpful tax changes in the legislation. The Board approved these changes and noted that the Deed would be signed by the Trustees on 12 June. The note on the potential implications of the impending Age Discrimination legislation was also noted. The Board would be provided with the Company's proposal on Age Discrimination legislation in due course.

Proposed Amendments in respect of ill-health retirements and other changes

The Board approved the proposals (with the exception of item 11) and delegated authority to Mr Lyon to discuss that proposal further with the actuary and achieve an agreed position.

5.6. *Public Relations Brief*

It was noted that public interest in the environmental impacts associated with HIAL's business is likely to increase as this is a contentious issue. Mr Lyon advised that we are promoting the economic benefit of the airports more forcefully as a conscious decision to focus attention on this. We are also compiling HIAL's environmental management system which will be referred to if criticism arises.

5.7. *Awayday 16 May 2006: outcomes*

The Board noted the position.

5.8. *Future Capital and Revenue Infrastructure Expenditure*

Mr Lyon explained that HIAL is reviewing its infrastructure at all airports with a view to becoming more focussed on identifying which is essential and needs to be maintained and which might be allowed to fall out of use. This is in order to achieve best use of funds. The five year capital plan will be instructed by this exercise. The Board noted the aircraft movement statistics for use of second runways. Mr Lyon would bring forward further analysis at the next two Board meetings so that the Board can consider on a case by case basis.

5.9. *Pay Remit 2006*

Mr Lyon explained that he and Miss Thornton had met the previous day with Scottish Executive colleagues and the pay remit guidelines for 2006 had been discussed in detail.

5.10. *Relocation Policy*

It was confirmed that the references to time limits etc had been removed intentionally to allow managers more flexibility in managing any staff relocation which is required by the company. The Board approved the revised relocation policy.

5.11. *Company Car Policy*

The Board approved the revised company car policy and company car allocation list.

Item 6 – Operations

6.1. *Operational Amelioration*

The Board noted the update and agreed in principle to progress the jet ski project subject to expected operational suitability and regulatory approval with further evidence of cost savings.

6.2. *Inverness Radar*

The Board noted the position regarding the continuing development of the project.

A further paper on capital expenditure requirements was also considered. Mr Lyon advised that the installation of the consol for phase 1 will also be suitable once we move to phase 2 which is to install our own radar. The installation of the HIAL radar will not take place until 2007/08 but the radar feed from Lossiemouth will be used to provide cover from June 2007. The Board approved the expenditure of £230,000 for the radar consol.

6.3. *Modifications to Standby Generators*

A detailed examination of existing equipment is being carried out which will take approximately three months to complete. The Board noted the position.

6.4. *Delethalisation*

The Board noted that HIAL is conducting an exercise to review the areas at airports which are likely to require delethalisation measures. Budget estimates and priorities will then be set over the next three years.

Item 7 – Marketing and Route Development

7.1. *Commercial/Marketing Brief and Traffic Statistics*

The Board noted the position.

7.2. *Airport consultative Committees Summary*

The summary of the minutes of the Islay, Kirkwall, Sumburgh and Wick airport consultative committee meetings were noted. It was confirmed that there is a web cam at Kirkwall airport and Mr Lyon hoped to roll this out to other HIAL airports and to link to the new corporate web site.

7.3. *Re-branding*

It was agreed that the current HIAL brand of the lion is becoming dated. The intention is to promote a new modern image and the concepts presented had been prepared by 442 design. It is suggested that the “L” (Limited) be removed and the reference be HIA rather than HIAL. It was also suggested that any signage should be bi-lingual in English and Gaelic. The Board asked about the financial implications of re-branding in terms of letter heads, signage etc. This had not yet been evaluated and the Board agreed in principle to the re-branding going ahead but asked that the costs be presented before final approval is given. It was agreed that a “big bang” approach is likely to have more of an impact.

Item 8 – Capital Expenditure

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

Mr Goodlad asked whether the expansion of the car park is part of the project as that is a critical issue at Sumburgh. Mr Lyon explained that it is the intention to use the land freed up by the removal of Wilsness hill but that has not been finalised as yet. The Board noted the update on progress and reiterated its praise for the way the project has been managed.

Item 9 – Any Other Business

Dundee Airport

Mr Lyon advised that a meeting is arranged with Dundee City Council on 11 July. We have reviewed the information provided to us.

Inverness Car Park 4

Mr Lyon explained the situation regarding car park 4 and the requirement for its completion prior to the operation by Ryanair. The Board approved the use of the contractor for Car Park 4 to draw up specification and subsequent cost.

Item 10 – Dates of Next Meetings

- 9.1.** Friday 4 August – Head Office. The Board Meeting will be followed by the Annual General Meetings.
- 9.2.** Board Awayday – 16 August - Inverness
- 9.3.** Monday 4 September – Opening of Sumburgh Airport Runway Extension
- 9.4.** Friday 7 September – Board meeting at Kirkwall – preceded by a Dinner with Stakeholders on Thursday 6 September. The Board meeting may be held on Thursday 6 September if that is more suited to travel arrangements.