



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



Annual Report and Accounts to 31 March 2020

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 lifeline services and connections they provide for some of our country's more remote communities.



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Chair's Statement

It is during unprecedented times that I introduce HIAL's Report and Accounts for 2019/20. As I write my introduction we are still operating within the necessary restrictions introduced to combat and contain the Coronavirus pandemic.

This global pandemic has altered all aspects of life, both in our personal and in our working lives. The impact on the UK, and indeed the world, economy is substantial as the consequences of the virus are felt across all industries. However, few industries have been affected as significantly as aviation. Airports and airlines around the world are having to make some very tough choices.

Our airports are unique in that their core role is to provide lifeline services for our communities in the Highlands and Islands. The strategic planning and processes in place enabled contingency arrangements to be quickly introduced to ensure essential services continued for our communities throughout the lockdown period.

Working in partnership with Transport Scotland, AGS Airports and Loganair our airports ensured a skeleton schedule continued for services such as NHS patient transfer, the Royal Mail, key workers and the oil and gas industry.

This pandemic has accentuated how crucial our airports are for the transport of supplies, key workers and services, as well as providing a vital link when emergency transport to the mainland is needed.

Now more than ever, there is a need to safeguard those vital services and we will continue to work with our partner agencies to ensure we meet those fundamental needs for the foreseeable future.

The pandemic has highlighted the need for all corners of industry to review how services and goods are provided. It is clear that we will all have a new 'business as usual' and we will be undertaking our work and conducting business in a different way moving forward. Many of us have embraced technology we had never heard of prior to COVID-19.

We are committed to innovation and providing sustainable aviation services for the future and will continue with our drive for environmental excellence and progress key innovative programmes such as our digital remote tower and surveillance centre solution.

However, we will take time to review our strategic plan to ensure our strategic priorities meet the needs of our communities as well as assist with the recovery of the aviation industry.

During the year, I was delighted to welcome four highly experienced new non-executive members to our Board. Eric Hollanders and Loraine Strachan joined the Board on 1st December, followed by Christopher Holliday and Isabel Todenhoefer, who joined us on 1st March 2020. Their considerable skills and breadth of knowledge complements that of Jim McLaughlin, our other non-executive member who has served on the Board for over six years. Together they will contribute significantly to HIAL's future strategy.

I would like to formally record my thanks to our two departing members David Savile and Tim Whittome for their dedication and contribution to HIAL's strategic direction over their eight years on the Board, having both joined on 1 March 2012.



A handwritten signature in black ink that reads "Lorna B Jack".

Lorna Jack
Chair, HIAL Board

Managing Director's Statement



As our Chair highlighted in her introduction, in the last quarter of this financial year the aviation industry experienced the full brunt of the Coronavirus hitting the country. The impact of the virus continues to affect all aspects of HIAL's work. The travel restrictions imposed to limit the spread of the virus has seen air travel almost grind to a halt across the UK, Europe and most parts of the world. We have already seen a 90% reduction in passengers in the first quarter of 2020/21.

Managing Director's Statement

In March 2020, we made the difficult, but necessary, decision to close all of our airports to scheduled flights and routine general aviation traffic. Our communities, in particular those on the islands, rely on our airports for vital services and I am proud to say that by working with Transport Scotland and our airline partners, HIAL's airports remained open to service a skeleton schedule that ensured that lifeline and essential services continued throughout lockdown as well as oil and gas and emergency services.

I would like to take this opportunity to thank all HIAL staff, from our airport teams on site to our support staff at our Head Office, for their dedication and sterling work to introduce contingency plans so quickly at each of our airports. This allowed our airports to operate as required and set the foundations that enabled us to safely re-start our scheduled and general aviation flights in line with government guidance.

As lockdown restrictions continue to ease, we are beginning to see a slow and carefully planned re-introduction of scheduled services across the Highlands and Islands. However, it will be a long road to recovery with some in the aviation sector predicting up to five years to recover to the levels seen before the pandemic.

Looking back over the last year Inverness Airport continued its trend towards reaching one million passenger mark, with a final figure of almost 917,000, a small increase of just under one per cent on 2018/19 passenger numbers. This is a significant achievement given the 48 per cent reduction in passengers against the previous year in March alone.

During 2019/20, 1.68 million passengers travelled through our airports. This marks a reduction of just over 60,000 passengers from last year. We saw a notable reduction in passengers start in February and was most keenly felt during March with a reduction of over 45 per cent passenger flow across all our airports.

Over the year, HIAL received a public subsidy of £37,445,000 including revenue funding of £24,545,000 and capital funding of £12,900,000.

This funding was utilised to support airfield operations and fund the ongoing challenge of maintaining our airports' infrastructure. Nonetheless, there were a number of significant projects progressed throughout the year. An investment of almost £4.5 million was made to upgrade the hold baggage and x-ray systems at both Inverness and Sumburgh airports. While the upgrade is a legal requirement the new systems will bring significant efficiency benefits at both airports.

To enhance the experience for passengers with restricted mobility, we have invested £277,500 in passenger access ramps to improve the boarding procedure at six of our airports: Benbecula, Islay, Kirkwall, Stornoway, Sumburgh and Wick John O'Groats.

Importantly, we continue on the journey to make all of our airports carbon neutral and help achieve the Scottish Government's Net Zero Aviation programme by 2040.

The future and long-term sustainability of aviation connectivity for the Highlands and Islands remains our priority. That said, it is clear that as we move through the different phases of the Scottish Government's route map, we will need to work differently and look at innovative ways of providing our service to ensure its longevity. This year saw a major step forward in our ground-breaking project as we moved into the implementation phase of our air traffic management programme following a full engagement programme with our staff and stakeholders in January 2020. The purchase of New Century House in Inverness for the Combined Surveillance Centre was concluded with an investment of £2.6 million and the procurement process for the Remote Tower solution is well underway and on schedule for the contract to be awarded in January 2021.

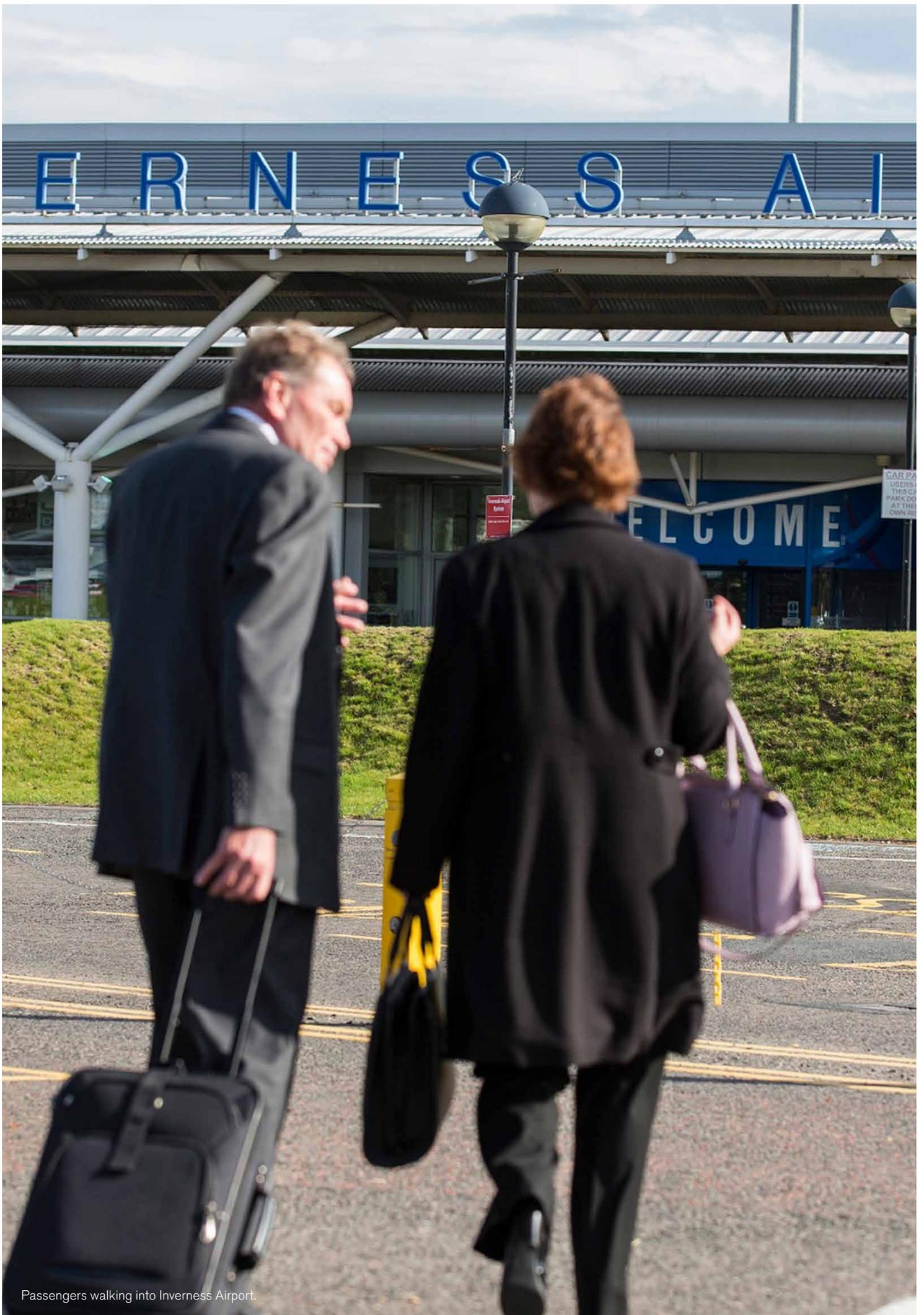
HIAL's airports also contribute to the social benefits and economic prosperity of our communities. As we continue on our path to recovery, and hopefully move into a post-COVID period, we will play our part in supporting economic recovery both locally and nationally. We have reviewed our capital programme to allow us to implement key projects and have other projects shelf-ready for when we are able to return to some semblance of normality. Within that review we have prioritised projects that will deliver local economic benefit within our communities. Times ahead will be challenging for the region, our aviation colleagues and HIAL, but I have no doubt that the close working relationships that we have fostered over the years will ensure that we can continue to provide the essential air services required by our communities.

The continued dedication of all of our colleagues right across the company and the support of the Board and Transport Scotland are essential to that success. I would like to take this opportunity to thank them all for their hard work over the year.



A handwritten signature in black ink, appearing to read 'I. Lyon', written over a white background.

Inglis Lyon
Managing Director, HIAL



Passengers walking into Inverness Airport.

Strategic Report

The directors submit their Strategic Report and the Group financial statements for the year ended 31 March 2020.

Principal activity

The Group's principal activity during the year continued to be the provision and operation of safe, secure and efficient airports which support the communities we serve.

Results and dividends

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

The parent company loss after taxation amounted to £2,716,000 (2019: loss £3,305,000). The directors recommend that no dividend be paid.

Review of the business

Public subsidies received for the year ended 31 March 2020 totalled £37,445,000 (2019: £28,428,000) made up of revenue of £24,545,000 (2019: £21,626,000) and capital of £12,900,000 (2019: £6,802,000). There was capital loan funding of £1,185,000 (2019: £1,248,000).

Passenger numbers across the Group decreased by 3.5% and aircraft movements decreased by 2.8%. Excluding Dundee Airport these variances have decreased by 3.4% and a decrease of 2.0% respectively. Freight tonnage increased by 3.3%.

Future developments

The directors aim to ensure that the Group continues to operate and manage its 11 airports in accordance with Scottish Ministerial policy and to support the social and economic welfare of the areas concerned. Significant changes in the present nature of the business are not expected in the near future.

Principal risks and uncertainties

The Group has an established Risk Oversight Group. The managing director, senior managers and appropriate line managers are responsible for the effective management of risk within the group and ensure that appropriate procedures, resources and skills are introduced and maintained to achieve this. The principal risks and uncertainties facing the Group are broadly grouped as liquidity, business, legislative and operational.

▪ Liquidity risks

The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continually monitoring forecasted and actual cash flows.

▪ Business risks

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

▪ Legislative risks

Airport operations across the Group are regulated by the Health and Safety Executive, UK Civil Aviation Authority (CAA), Scottish Environmental Protection Agency and 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 any new Directives are likely to have a material impact on the cost of airport operations.

▪ Operational risks

The Group manages operational risk through its safety management and risk management systems. Overall Group strategy and direction is determined by the board of directors and by Scottish Government policy.

▪ COVID risks

The potential impacts of COVID -19 continue to be risk assessed and monitored by Directors as explained in the Governance Statement on page 14.

Strategic Report

Key priority areas and indicators

The Board consider the following to be key priority areas and indicators:

Supplier payment policy and practice

It is group policy that payments to suppliers are made in accordance with terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 March 2020 the group had an average of 21 days' purchases owed to trade creditors (2019: 28 days).

Safety and security

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

Air Navigation Service Provider (ANSP)

In accordance with EC Single European Sky legislation, HIAL is certificated and designated as an ANSP by the UK Civil Aviation Authority ("the regulator"). The following information for the year 2019/20 is provided in accordance with the reporting requirements set out in Commission Regulation (EC) No 2096/2005.

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

Following a European initiative regarding the introduction of Global Navigation Satellite Systems (GNSS) instrument approaches at all 11 HIAL airports, GNSS instrument approaches were successfully introduced at 9 airports with two airports pending approval by the CAA.

HIAL's Air Traffic Management Strategy will enhance safety and efficiency and will see the Company transition to a more sustainable and more environmentally friendly Airspace environment. The Air Traffic Service (ATS) model will meet with the Company's operational and business needs and satisfy stakeholder expectations and regulatory requirements post 2020.

CAPITAL EXPENDITURE

Investment in property, plant and equipment amounted to £14.1m. Major works undertaken included:

Barra	£328k on two new fire appliances
Campbeltown	£405k on two new fire appliances
Inverness	£2.9m on Hold Baggage X-Ray System, £447k on Environmental Drainage System, £388k on Security Space Modifications and £282k on a Security Tray Return System
Sumburgh	£1.56m on Hold Baggage X-Ray System and £903k on Hangar 1 Cladding
Tiree	£207k on Portable LED Lighting
Corporate	£2.6m on Combined Surveillance System Centre Building



BENEFITS OF HIAL'S AIR TRAFFIC MANAGEMENT STRATEGY

- Deliver a modern and flexible air traffic management operation.
- Improve air traffic management resilience and ease staff recruitment and retention issues.
- Introduce controlled airspace to ensure legislative compliance and planned regulatory requirements.
- Provide a centre of excellence for air traffic management, and training facilities.

Strategic Report

Air Traffic Management

Dundee, Kirkwall, Stornoway, Sumburgh and Inverness:

HIAL continues to provide an Air Traffic Service (ATS) to meet the level and complexity of air traffic and customer requirements. This includes the provision of an 'on-call' response for lifeline services including air ambulance and search and rescue.

The modernisation of our Air Traffic Control provision continues through the Air Traffic Management Strategy. This will see Dundee, Kirkwall, Sumburgh, Inverness and Stornoway transition to a new combined surveillance centre using new surveillance tools and remote tower technologies in line with the published programme.

National Air Traffic Services (NATS) currently provide the radar approach service to Sumburgh Airport. However, services at Sumburgh will transition to the Combined Surveillance Centre as part of the ATMS programme .

A programme to replace voice communication systems at Inverness, Kirkwall, Sumburgh and Dundee was completed in 2019. Navigation aids, specifically Non Directional (Radio) Beacons (NDB) facilities at Inverness, Campbeltown and Benbecula were replaced in 2019/20 with Kirkwall, Barra, Islay and Dundee following over the next two years. An Instrument Landing System (ILS) upgrade programme will commence with Inverness late in 2020/21 with Kirkwall, Stornoway and Dundee being phased in over the next two years.

Barra, Campbeltown, Islay and Tiree:

HIAL will continue to provide air navigation via Aerodrome Flight Information Service (AFIS) to meet the level and complexity of air traffic and the requirements of our customers.



Twin Otter aircraft on the beach runway at Barra Airport.

Strategic Report

Annual traffic statistics

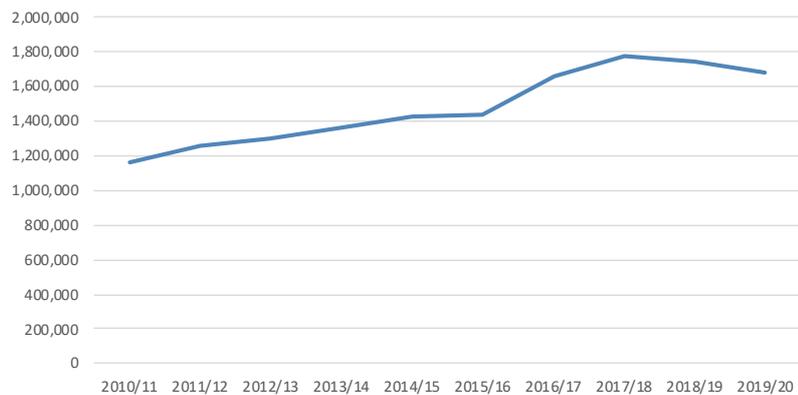
For the year ended 31 March 2020

	Passengers			Movements		
	2019/20 No.	2018/19 No.	Variance %	2019/20 No.	2018/19 No.	Variance %
Barra	13,920	14,804	(6.0%)	1,364	1,424	(4.2%)
Benbecula	35,161	38,007	(7.5%)	3,310	3,649	(9.3%)
Campbeltown	7,873	8,724	(9.8%)	1,940	2,036	(4.7%)
Dundee	21,424	22,202	(3.5%)	40,938	42,857	(4.5%)
Inverness	916,669	909,159	0.8%	31,870	29,756	7.1%
Islay	34,685	35,419	(2.1%)	3,177	2,771	14.7%
Kirkwall	184,011	195,945	(6.1%)	14,212	14,601	(2.7%)
Stornoway	132,156	137,181	(3.7%)	9,274	10,124	(8.4%)
Sumburgh	307,906	348,443	(11.6%)	18,580	20,973	(11.4%)
Tiree	12,217	13,032	(6.3%)	1,730	1,860	(7.0%)
Wick John O'Groats	16,223	19,450	(16.6%)	3,993	4,043	(1.2%)
Total	1,682,245	1,742,366	(3.5%)	130,388	134,094	(2.8%)

10 year statistics

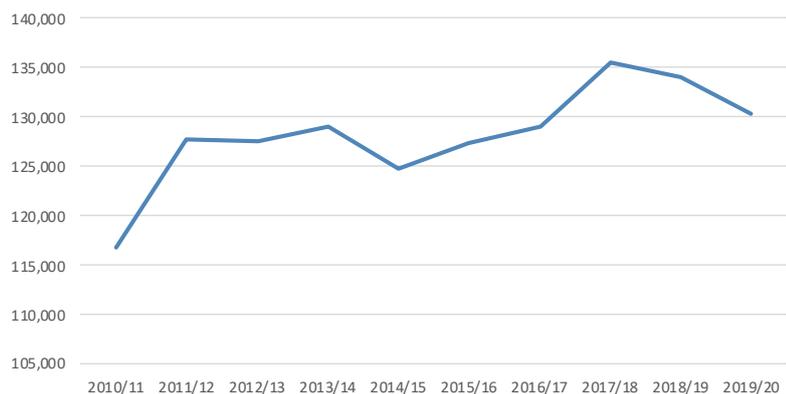
Total Passengers

2010/11	1,158,041
2011/12	1,258,452
2012/13	1,297,676
2013/14	1,367,342
2014/15	1,431,452
2015/16	1,437,625
2016/17	1,658,423
2017/18	1,780,521
2018/19	1,742,366
2019/20	1,682,245



Aircraft Movements

2010/11	116,889
2011/12	127,805
2012/13	127,645
2013/14	129,106
2014/15	124,738
2015/16	127,359
2016/17	129,110
2017/18	135,620
2018/19	134,094
2019/20	130,388



Strategic Report

Human Resources

A key focus of our organisational development priorities over the course of the year, further development of our terms & conditions and reward package. During 2019/20 we have undertaken a significant amount of work towards the development of a new pay and grading system for the organisation. This will continue into 2020/21 as we move into the approvals phase and continue discussions with our recognised Trade Unions. This piece of work is key in supporting the lowering of our Gender Pay Gap further, which saw a reduction of 1.4% (median) and 1.6% (mean) has been achieved in 2019/20.

Health and Wellbeing has been an area of increased focus and regular health promotion materials have been shared with our Airports covering a wide variety of topics. During the year we have obtained Disability Confident Accreditation and are working to implement measures to support our staff with disabilities, and encourage others to consider working for us.

We have also commenced a review of our transactional HR processes, seeking to identify areas where a new HR system could assist in increasing efficiency. We anticipate procurement of an HR and Payroll system being completed during 2020/21.

We have seen an increase in recruitment activity this year, with the number of vacancies advertised increasing by 11% from 18/19. Our turnover level has increased from 9.28% (2018/19) to 12.65% (2019/20). Turnover levels remain highest in Security at 18.26% (up from 13.84% the previous year).

This has been a busy year for Learning and Development with a focus on ensuring that our staff meet all the statutory and mandatory learning requirements of their varied roles. We have development plans in place for all the staff who hold specific regulatory accountabilities and we have held a number of learning events to upskill staff where a need has been identified.

To support this work and to improve the way in which we identify learning needs we have revisited and revised our competency framework and our staff appraisal process. This process was piloted this year and will be rolled out in 2020/21 with training for all line managers to help them implement this effectively.

We have also been looking at our approach to utilising apprentices. This year has seen our first foundation apprentices enjoying work experience opportunities in Head Office and Inverness Airport. We have also employed a Modern Apprentice within our IT team and are exploring a range of opportunities for Modern Apprentices across the HIAL Group. We are pleased to have identified our first candidate for a Graduate Apprenticeship in partnership with Robert Gordon University and they will start in September 2020.

In addition we have brought our e-learning up to date. We have revamped our learning gateway to make it more user friendly and to improve the information available to managers. We have increased the offering of e-learning and improved reporting to provide a comprehensive learning record for every member of staff. Next year will see the roll out of blended courses incorporating a range of different learning activities.

The work we have done this year will mean we have a good foundation and processes to support a structured approach to learning and development in 2020/21.



Security staff conducting a frisk search on a passenger.



Inverness Airport Fire Service staff.

Strategic Report

Streamlined Energy and Carbon Reporting (SECR)

The Companies (Energy and Carbon Report) Regulations 2018 (“the 2018 Regulations”) implement the government’s policy on Streamlined Energy and Carbon Reporting (SECR). Large unquoted companies are obliged to report their UK energy use and associated greenhouse gas emissions as a minimum relating to gas, electricity and transport fuel, as well as an intensity ratio and information relating to energy efficiency action, through their annual reports.

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

Streamlined Energy and Carbon Reporting (SECR)	UK and offshore [mandatory]
Energy consumption used to calculate emissions:/kWh [mandatory] – optional to provide separate figures for gas, electricity, transport fuel and other energy sources	10,669,854.62
Emissions from combustion of gas tCO ₂ e (Scope 1) [mandatory]	33.84
Emissions from combustion of fuel for transport purposes (Scope 1) [mandatory]	388.28
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3) [mandatory]	5.31
Emissions from purchased electricity (Scope 2, location-based) [mandatory]	2,278.65
Total gross CO₂e based on above – [mandatory]	2,706.07
Intensity ratio: tCO₂e gross figure based from mandatory fields above [mandatory]: tCO₂e/passenger movement	0.00
Intensity ratio: tCO₂e gross figure based from mandatory fields above [mandatory]: tCO₂e/aircraft movement	0.02
Emissions from other activities which the company own or control including operation of facilities (Scope 1) [optional]. Includes heating, fuels used for Fire Service Training, generator fuel	1,459.78
Emissions from purchased electricity (Scope 2, market-based factor) [optional]	5.18
Emissions from generation of electricity that is consumed in a transmission and distribution system for which the company does not own or control (Scope 3)/tCO ₂ e [optional]	193.45
Total gross ALL REPORTED Scope 3 emissions/tCO ₂ e [optional]	198.76
Total gross ALL REPORTED Scope 1, Scope 2 [location] & ALL REPORTED Scope 3 emissions/tCO ₂ e [optional]	4,359.30
Total gross ALL REPORTED Scope 1, Scope 2 [market] & ALL REPORTED Scope 3 emissions/tCO ₂ e [optional]	2,091.13
Carbon offsets / tCO ₂ e [optional]	-
Domestic Carbon Units (e.g. Woodland Carbon Code, Peatland Carbon Code/tCO ₂ e) [optional]	-
Total ALL REPORTED annual net emissions/tCO₂e [market based] [optional]	2,091.13
Total ALL REPORTED annual net emissions/tCO₂e [location based] [optional]	4,359.30

Strategic Report

Streamlined Energy and Carbon Reporting (SECR) (continued)

Out of Scope Emissions:

611.74

These are not mandatory to report, however outside of scope factors should be used to account for the direct carbon dioxide (CO₂) impact of burning biomass and biofuels. The emissions are labelled 'outside of scopes' because the Scope 1 impact of these fuels has been determined to be a net '0' (since the fuel source itself absorbs an equivalent amount of CO₂ during the growth phase as the amount of CO₂ released through combustion). Full reporting of any fuel from a biogenic source should have the 'outside of scopes' CO₂ value documented to ensure complete accounting for the emissions created.

Total 2019 emissions (tCO₂e)

4,971.04

Methodology:

The data has been gathered following the guiding principles of the Greenhouse Gas Protocol Corporate Standard. Much of Scope 3 transport emissions has been extrapolated from spend data, due to insufficient information on fuel type and quantities. Emissions Factors used are the UK Governments published figures for 2019. If these have not been sufficient, then other reputable sources have been used. For unquoted companies, fugitive emissions from refrigerants do not require to be reported under SECR and these have not been included.

The Company has a significant amount of tenants who consume electricity, gas and fuel, which are outwith the Company's control. Where data is available, such as electricity sub-meter readings or invoices for the recharging of fuel, then emissions from these have been excluded from the totals reported. However, there remains a significant number of tenants where their use of electricity is not metered or measured specifically, and the reported data includes emissions from these.

Dundee Airport Ltd is a subsidiary of Highlands & Islands Airports Ltd and emissions data for DAL has been included within this report.

Energy Efficiency Action:

In the year 19-20, Inverness Airport committed to gaining the first level of compliance with the Airport Carbon Accreditation scheme. Airport Carbon Accreditation is an independent programme administered by WSP, an international consultancy appointed by ACI EUROPE to enforce the accreditation criteria for airports on an annual basis. The administration of the programme is overseen by an Advisory Board. The other 10 airports have all had their carbon footprints calculated (using ISO 14064-1 and WRI Greenhouse Gas Protocol) and are being independently assessed and verified to ISO 14046-3. HIAL have also committed to creating the world's first Net Zero Aviation Zone by 2040.

In the period covered by the report, HIAL completed several projects which will result in improved energy efficiency. These included replacement of runway lights with LED's at Inverness (£1.5M), in the Head Office, high mast apron lighting at Dundee, in the Terminal office at Stornoway, and guard lights and hold point lights at Islay.

Going forward, in 2020-21 HIAL is committed to carrying out detailed energy audits at all the airports, with a particular focus on heating. These audits will then provide the roadmap for carrying out further improvements as we aim for Net Zero.

For electricity, market based emissions are very low because the airport purchased a majority of green electricity from its energy suppliers. A supplier statement has been provided for electricity consumed between April 2019 and March 2020, that indicates that the majority of supply is 100% renewable.

Strategic Report

Going concern

The parent company sets an annual budget which aims to balance income, expenditure and operating subsidy provisions set by government. Future operational and legislative requirements are addressed in a ten year corporate plan which includes provision for revenue and capital items such as major repairs to runways or new or replacement equipment. The core operating subsidy budget for the year to 31 March 2020 was set at up to £37.4 million (including up to £24.5 million of revenue subsidy) and this was drawn down during the year. The operating subsidy budget has been set at up to £61.0 million (including up to £24.2 million of revenue subsidy, and up to £36.8m capital subsidy and capital loans) for the year ending 31 March 2021. This is considered by the directors to be adequate to sustain the Group as a going concern having considered the 12 months ahead from date of approval of the financial statements.

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

As a result of the IAS 19 pension deficit the group has net liabilities of £28.145m (2019: £30.057m) and the company has net liabilities of £26.557m (2019: £28.090m) at 31 March 2020. This net liability position is a result of bringing a long term pension liability onto the balance sheet and does not reflect the group or company's ability to continue as a going concern or to meet its liabilities as they fall due. Accordingly the group and the company continue to adopt the going concern basis in preparing their annual financial statements.



By order of the board
Inglis Lyon Company Secretary
28 October 2020



Aerial shot of Dundee Airport.

Directors' Report

The directors submit their report and the group financial statements for the year ended 31 March 2020.

Directors

The directors who served during the year to 31 March 2020 and subsequently are:

Lorna Jack, MA, CA	Chair	
Inglis Lyon, BSc (Hons) LLB	Managing Director	
Gillian Bruton, BAcc, CA	Finance Director	
David Savile	Director	(Resigned 29 February 2020)
Timothy Whittome, BSc (Hons), AMIMechE, MRIN	Director	(Resigned 29 February 2020)
James McLaughlan, Chartered MCIPD, MBA	Director	
Eric Hollanders	Director	(Appointed 01 December 2019)
Lorraine Strachan CA (SA)	Director	(Appointed 01 December 2019)
Christopher Holliday	Director	(Appointed 01 March 2020)
Isabel Todenhoefer	Director	(Appointed 01 March 2020)

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, Scott-Moncreeff, tendered their resignation during 2019 and were replaced by Azets Audit Services. 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.

Directors' statement as to disclosure of information to the auditor

The directors who were members of the board at the time of approving the Directors' report are listed above. Having made enquiries of fellow Directors and of the Group's auditor, each of these directors confirms that: -

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditor is aware of that information.



By order of the board
Inglis Lyon Company Secretary
28 October 2020

Governance Statement

Introduction

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievements of HIAL's objectives whilst safeguarding the public funds and assets for which I am responsible. The Memorandum to Accountable Officers of other Public Bodies sets out these responsibilities.

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 FY 2019-20 and reports my assessment of the effectiveness of these arrangements.

Governance framework

HIAL's governance framework is based on the legislation and good corporate governance that applies to a Government sponsored company. This includes adherence to the Scottish Public Finance Manual (SPFM).

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling of public funds. It is designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of probity and secure effective accountability and good systems of internal control. As the group is a body sponsored by the Scottish Government, guidance contained in the SPFM is applicable.

The following diagram outlines the current governance structure.



Governance Statement

The Board

The Board determines the business strategy of the group in conjunction with the executive team, 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 HIAL's policies, aims and objectives whilst safeguarding public funds and assets. The role of the Board is set out in the Framework Document between the Scottish Government and HIAL. The HIAL Board is responsible for providing leadership, direction, support and guidance, and in ensuring that HIAL delivers its functions effectively and efficiently 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.

The Board is currently composed of eight members. The eight members are the non-executive chair, the executive managing director, the executive finance director and five non-executive directors. The Board has a clear schedule of matters reserved to it and a clear scheme of delegation to the managing director, finance director and other members of the executive team. 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 a six weekly cycle, with periodic additional telephone meetings as business dictates. Attendance by members of the Board for the financial year ended 31 March 2020 is shown in the table below. Board members declare their interests annually and records are kept.

COVID

During the period since 23 March, when the impact of the COVID pandemic began to affect the HIAL Group, additional three weekly board meetings were convened to ensure that the Board were kept informed of the impacts of the pandemic on the company and the company's strategy and plans to manage the situation. As already mentioned in the Chair's and Managing Director's statement, the main goal was to keep the 11 airports open and enable the skeleton lifeline air services to the Highlands and Islands to continue. This watching brief enabled the Board to govern the situation as it was occurring and provide the guidance and oversight required.

The assessor

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



Views of Shetland on the approach into Sumburgh Airport.

Governance Statement

Audit Committee

The Board has established an Audit Committee with agreed terms of reference to advise it on the adequacy of risk management arrangements, internal control and governance matters, including compliance with the Scottish Public Finance Manual (SPFM). The committee receives regular reports from internal and external auditors and oversees the corporate risk register presented by the executive team. It oversees compliance with legislation and regulation. The committee reports to the Board on risk and compliance matters following each meeting. Attendance by members of the Audit Committee for the financial year ended 31 March 2020 is shown in the table below. During the year the audit committee was composed of three non-executive directors and was chaired by one of their number. The managing director and the finance director are invited to attend meetings.

Name	Audit Committee			HIAL Board			DAL Board		
	Position	Held	Attended	Position	Held	Attended	Position	Held	Attended
Lorna Jack	N/A	N/A	N/A	Chair	8	8	Chair	6	6
Jim McLaughlin	Interim Chair	4	4	NXD Member	8	7	NXD Member	6	5
David Savile	NXD Member	4	4	NXD Member	8	7	NXD Member	6	6
Timothy Whittome	NXD Member	4	4	NXD Member	8	8	NXD Member	6	6
Inglis Lyon	In Attendance	4	4	Member MD	8	8	Member MD	6	6
Gillian Bruton	In Attendance	4	4	Member FD	8	8	Member FD	6	6
Eric Hollanders	N/A	N/A	N/A	NXD Member	3	3	NXD Member	2	2
Lorraine Strachan	Chair from Feb 2020	2	2	NXD Member	3	3	NXD Member	2	2
David Martin	N/A	N/A	N/A	N/A	N/A	N/A	NXD Member	6	4

Internal audit

The internal audit function concentrates on areas determined by analysis of the degree of risk and in accordance with the internal audit plan considered and approved by the audit committee. The audit committee enhances the independence and value of internal audit and provides a forum for senior management to discuss internal control including issues raised by internal audit. The internal audit function is externally commissioned which provides further independent assurance of the controls.

Purpose of the system of internal control

The system of internal control is designed to mitigate rather than eliminate the risk of failure to achieve the group's policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is an active process designed to identify the principal risks to the achievement of the group's aims, objectives and policies, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The process within the organisation accords with the SPFM and has been in place for the year ended 31 March 2020 and up to the date of approval of the annual report and accounts.

Governance Statement

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 identified locally and corporately, then managed through the Risk Oversight Group and the senior management team who report through the Audit Committee, to the boards of HIAL, DAL and AMSL (the Group).

The Group 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, giving consideration to the Group's risk exposure;
- Coordinate cross functional activities to ensure effective, efficient controls are developed and maintained;
- Review the operation of internal controls within the Group and identify any gaps;
- Review the operation of risk and safety management activities within the Group and identify any gaps;
- Recommend improvements to procedures and processes to reflect best business practice and the needs of the business;
- Review lessons learned and ensure they are shared across the Group
- Support and review continuity and recovery plans ensuring the business remains resilient against all eventualities i.e. business continuity plans, pandemic plans etc.;
- Identify common trends arising from internal/external audits, incident investigations, lessons learnt etc. and drive forward recommendations for suitable actions;
- Promote and encourage ownership of corporate responsibility in regards to risk management;
- Drive forward new risk management initiatives within the business;
- Communicate risk and share good practice;
- Review and monitor risk management training and
- Undertake specific activities as directed by the Group boards.

Safety management systems

The system was implemented with a full training programme and provides a robust framework for the management of safety within the business. Each member of staff is encouraged to work within the framework and to work with the various management teams in improving the framework where it is necessary.

We all have a responsibility for working in a safe manner. The application of effective aviation safety management systems is integral to all our aviation activities with the objective of achieving the highest levels of safety standards and performance. We ensure currency through regular training using internal and external providers.

Control environment

Capable, competent personnel are viewed as an essential part of the control environment. High standards of behaviour are supported by ongoing staff training and development.



Inglis Lyon
Managing Director
28 October 2020

Statement of Director's Responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the Group for that period.

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.

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.

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 2020, 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 Statement of Cash Flows, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and in accordance with the provisions of the Companies Act 2006; and
- the 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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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 audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Opinion 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 parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of the directors

As explained more fully in the Directors' Responsibilities Statement on page 18, 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 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.

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

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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

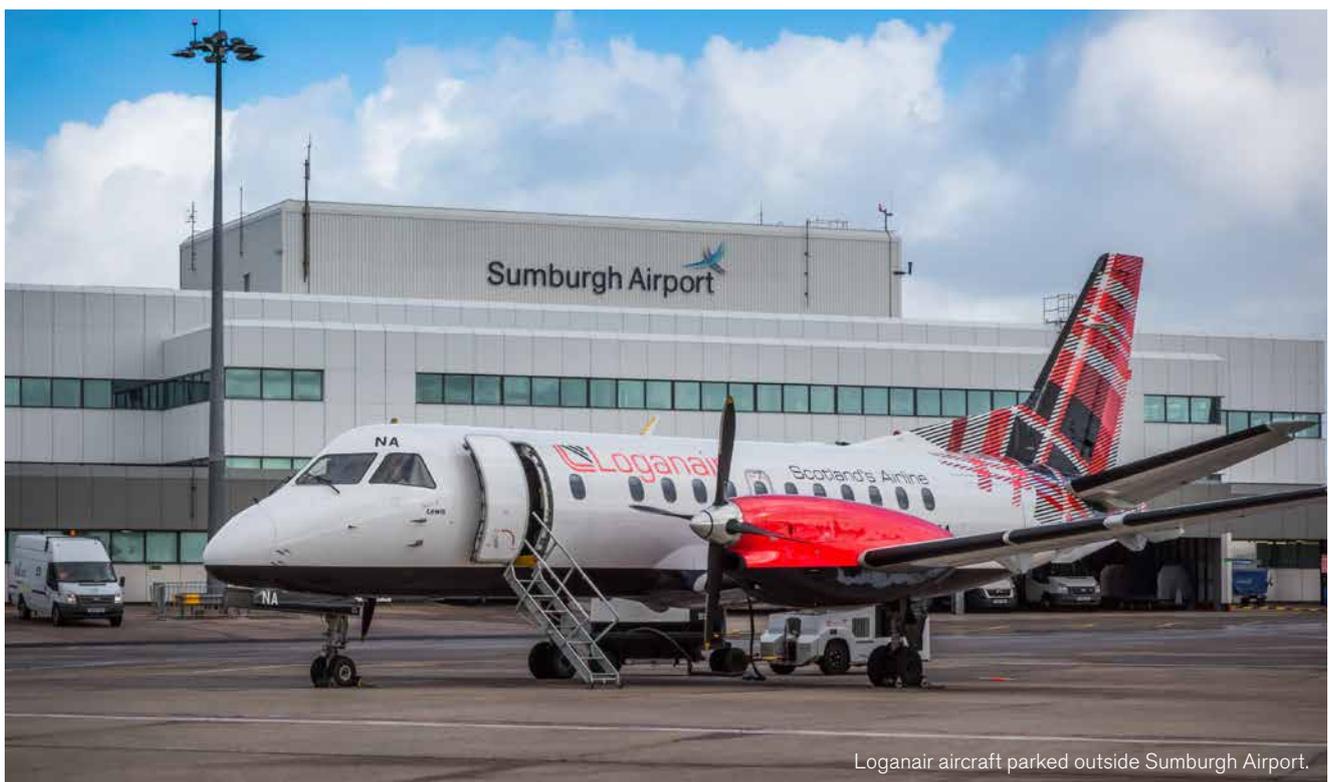
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. The description forms part of our Auditor's Report.

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
Seple Street
Edinburgh
EH3 8BL

28 October 2020



Loganair aircraft parked outside Sumburgh Airport.

Group Income Statement

FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 £000	2019 £000
Revenue	3	24,892	25,099
Cost of sales		(45,676)	(44,424)
Gross loss		(20,784)	(19,325)
Administrative expenses		(5,828)	(4,780)
Other income	4	24,545	21,870
Other gains/(losses)	6	273	(167)
Operating loss	5	(1,794)	(2,402)
Share of operating loss in joint venture	12	(63)	(117)
Finance (costs)/revenue	8	(57)	112
Other finance cost – pensions	21	(821)	(902)
Loss from continuing operations before tax		(2,735)	(3,309)
Tax charge	9	19	4
Loss from continuing operations		(2,716)	(3,305)

All activities relate to continuing operations.

Group Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 £000	2019 £000
Loss for the year		(2,716)	(3,305)
Other comprehensive income:			
Actuarial gains/(losses)	21	4,538	(2,869)
Tax on items relating to components of other comprehensive income		-	-
Other comprehensive (expense)/income for the year, net of tax		4,538	(2,869)
Total comprehensive income/(expense) for the year		1,822	(6,174)

Company Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 £000	2019 £000
Loss for the year		(3,404)	(3,018)
Other comprehensive income:			
Actuarial gains/(losses)	21	3,872	(2,762)
Tax on items relating to components of other comprehensive income		-	-
Other comprehensive (expense)/income for the year, net of tax		3,872	(2,762)
Total comprehensive income/(expense) for the year		468	(5,780)

Group Statement of changes in Equity

FOR THE YEAR ENDED 31 MARCH 2020

	Equity share capital £000	Retained earnings £000	Total equity £000
At 1 April 2018	50	(24,613)	(24,563)
(Loss) in year attributable to equity holders	-	(3,305)	(3,305)
Other comprehensive expense	-	(2,869)	(2,869)
At 31 March 2019	50	(30,787)	(30,737)

	Equity share capital £000	Retained earnings £000	Total equity £000
At 1 April 2019	50	(30,787)	(30,737)
(Loss) in year attributable to equity holders	-	(2,716)	(2,716)
Other comprehensive income	-	4,538	4,538
At 31 March 2020	50	(28,965)	(28,915)

Company Statement of changes in Equity

FOR THE YEAR ENDED 31 MARCH 2020

	Equity share capital £000	Retained earnings £000	Total equity £000
At 1 April 2018	50	(20,601)	(20,551)
(Loss) in year attributable to equity holders	-	(3,018)	(3,018)
Other comprehensive expense	-	(2,762)	(2,762)
At 31 March 2019	50	(26,381)	(26,331)

	Equity share capital £000	Retained earnings £000	Total equity £000
At 1 April 2019	50	(26,381)	(26,331)
(Loss) in year attributable to equity holders	-	(3,404)	(3,404)
Other comprehensive income	-	3,872	3,872
At 31 March 2020	50	(25,913)	(25,863)

Group Balance Sheet

AS AT 31 MARCH 2020

	Notes	2020 £000	2019 £000
ASSETS			
Non-current assets			
Property, plant and equipment	10	123,133	116,575
Investment properties	11	854	633
Investments accounted for using the equity method	12	(84)	(20)
Intangible assets	13	55	55
		123,958	117,243
Current assets			
Trade and other receivables	14	7,087	5,980
Inventories	15	46	57
Cash and cash equivalents	16	3,320	3,105
		10,453	9,142
Total assets		134,411	126,385
LIABILITIES			
Current liabilities			
Trade and other payables	17	(11,211)	(9,365)
		(11,211)	(9,365)
Non-current liabilities			
Loan	18	(3,468)	(1,896)
Defined benefit pension scheme deficit	21	(28,145)	(30,057)
Deferred subsidies	19	(120,502)	(115,804)
		(152,115)	(147,757)
Total liabilities		(163,326)	(157,122)
NET LIABILITIES		(28,915)	(30,737)
EQUITY			
Ordinary shares	22	50	50
Retained earnings		(28,965)	(30,787)
		(28,915)	(30,737)

The financial statements were authorised for issue by the Board of Directors on 28th October 2020 and signed on its behalf by:



Lorna Jack, MA CA
Chair



Inglis Lyon
Managing Director

Company Balance Sheet

AS AT 31 MARCH 2020

	Notes	2020 £000	2019 £000
ASSETS			
Non-current assets			
Property, plant and equipment	10	112,029	105,960
Investment properties	11	854	633
Investments	12	1,998	1,998
		114,881	108,591
Current assets			
Trade and other receivables	14	6,801	6,203
Inventories	15	-	9
Cash and cash equivalents	16	3,186	2,895
		9,987	9,107
Total assets		124,868	117,698
LIABILITIES			
Current liabilities			
Trade and other payables	17	(11,434)	(8,975)
		(11,434)	(8,975)
Non-current liabilities			
Loan	18	(3,412)	(1,896)
Defined benefit pension scheme deficit	21	(26,557)	(28,090)
Deferred subsidies	19	(109,328)	(105,068)
		(139,297)	(135,054)
Total liabilities		(150,731)	(144,029)
NET LIABILITIES		(25,863)	(26,331)
EQUITY			
Ordinary shares	22	50	50
Retained earnings		(25,913)	(26,381)
		(25,863)	(26,331)

The financial statements were authorised for issue by the Board of Directors on 28th October 2020 and signed on its behalf by:



Lorna Jack, MA, CA
Chair



Inglis Lyon
Managing Director

Group Cash flow Statement

AS AT 31 MARCH 2020

	Notes	2020 £000	2019 £000
Cash flows from operating activities			
Cash generated by operations	23	684	1,092
Purchase of property, plant and equipment		(14,087)	(8,922)
Proceeds from sale of property, plant and equipment		59	62
Receipt of capital subsidy		12,900	7,685
Tax paid		4	(1)
Net cash flow from operating activities		(440)	(84)
Cash flows from investing activities			
Increase in loan to joint venture		(52)	(25)
Net cash flow from investing activities		(52)	(25)
Cash flows from financing activities			
Loan received		1,572	1,270
Loan repaid		(748)	(297)
Finance lease repaid		(60)	-
Interest paid		(57)	(19)
Net cash flow from financing activities		707	954
Increase in cash and cash equivalents		215	845
Cash and cash equivalents at the beginning of the year		3,105	2,260
Cash and cash equivalents at the end of the year		3,320	3,105

Notes to the Financial Statements

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

The financial statements of Highlands and Islands Airports Limited and its subsidiaries (the Group) for the year ended 31 March 2020 were authorised for issue by the board of directors on 28 October 2020 and the Balance Sheet was signed on the Board's behalf by Lorna Jack and Inglis Lyon.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2020.

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

2.1 Accounting policies

(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.

(b) Going concern

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

The Group receives subsidies from Scottish Government on an annual basis. The annual financial statements are prepared on the assumption that the Group will continue to receive such subsidies for the foreseeable future.

As a result of the IAS 19 pension deficit the Group has net liabilities of £28.145m and the Company has net liabilities of £30.737m at 31 March 2020. 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 Group and the Company continue to adopt the going concern basis in preparing their annual financial statements.

The company has received a written assurance from Scottish Government that it will be provided with additional grant funding to enable it to continue to operate the 11 airports following the loss of revenue it has experienced in the period since 1st April 2020 as a result of the COVID pandemic.

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 2020.

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 related service is provided. In addition, rental income is earned through leasing buildings and parts of buildings to various tenants and is recognised on a straight line basis over the rental period. Revenue, exclusive of value added tax, derived from aircraft leases is recognised on a straight-line basis over the period of the lease.

Notes to the Financial Statements

(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 operates the Highlands and Islands Airports Pension Scheme, a defined benefit scheme. Employees of Dundee Airport are members of the Tayside Superannuation Fund, another defined benefit scheme, which is operated by Dundee City Council. Tayside Superannuation Fund is a multi-employer pension scheme. Auto enrollment employees join the People's Pension, which is a defined contribution scheme.

The cost of providing the benefits under the defined benefit plans is determined separately for each plan using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice.

The past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to a pension plan, past service costs are recognised immediately.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The interest on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the interest on plan assets and the interest cost on obligations is recognised in the Income statement as other finance revenue or cost.

The Group has applied the option in IAS 19 Employee benefits to recognise actuarial gains and losses in full in the statement of comprehensive income and expense in the period in which they occur.

The defined benefit surplus or deficit comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled.

Notes to the Financial Statements

(e) Property, plant and equipment

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

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

Freehold buildings	over 6 years to 60 years
Leasehold land and buildings	over the remaining life of the lease to a max of 50 years
Car parks	over 10 years to 45 years
Navigation aids	over 5 years to 20 years
Runways, aprons and main services	over 3 years to 50 years
Aircraft & Aircraft Spares	over 25 years
Vehicles	over 5 years to 10 years
Specialist airport vehicles	over 10 years to 20 years
Plant and IT equipment	over 3 years to 10 years
Furniture & fittings	over 3 years to 5 years

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

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

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

(f) Leasing

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement assessing whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

The classification of leases as finance or operating leases requires the Group to determine, based on an evaluation of the terms and conditions, whether it retains or acquires the significant risks and rewards or ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised on the balance sheet.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the Income Statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the term.

Operating lease payments are recognised as an expense in the Income statement on a straight line basis over the lease term.

Group as a lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Notes to the Financial Statements

(g) Business combinations

The acquisition of subsidiaries is accounted for under IFRS 3 Business Combinations using the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition irrespective of the extent of any minority interest.

(h) Goodwill

Goodwill is initially measured at cost, being the excess of the cost of a business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

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

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

(i) Investments in joint ventures

Entities in which the Group holds an interest on a long term basis and are jointly controlled by the Group and one or more other venturers under a contractual arrangement are treated as joint ventures. The Group recognises its interest in joint ventures using the equity method. The Group presents its aggregate share of the profit or loss of joint ventures on the face of the Income Statement and the investments are presented as non-current assets on the face of the Balance Sheet.

(j) Investment properties

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

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

Transfers are made to or from investment property only when there is a change in use. For 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.

(k) Intangible assets

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

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

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

Notes to the Financial Statements

(l) Impairment of non-financial assets

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

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists the Group estimates the asset's or cash generating unit's recoverable amount. A previous impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior periods.

(m) Cash and short term deposits

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

(n) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

(o) Inventories

Inventories are stated at the lower of cost and net realisable value.

Net realisable value is based on an estimated selling price less any further costs expected to be incurred to completion and disposal.

(p) Trade and other receivables

Trade receivables, which generally have 30 day credit terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost.

Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

(q) Financial assets

Financial assets, within the scope of IAS 39 Financial Instruments: Recognition and Measurement, are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, evaluates this designation at each financial year-end.

When financial assets are recognised initially they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, being the date that the Group commits to purchase or sell the asset.

Notes to the Financial Statements

(q) Financial assets (continued)

The subsequent measurement of financial assets depends on their classification. The Group have no financial assets at fair value through profit or loss, nor any held-to-maturity investments. The Group have trade receivables and the Group has made a long term loan to Inverness Airport Business Park Limited (IABP), the entity over which it has joint control. This constitutes a financial asset and is classified under Loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest rate (EIR) method if the time value of money is significant. Gains and losses are recognised in the Income Statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(r) Financial 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 2020. 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.

Notes to the Financial Statements

2.4. Judgements and key sources of estimation uncertainty (continued)

Revaluation of Investment Property

The outbreak of the Coronavirus (COVID-19), declared by the World Health Organisation as “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. In the UK, market activity is being impacted in all sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value.

Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of ‘material valuation uncertainty’ per VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.

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

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

The following standards, amendments and interpretations became effective during the year and have been adopted in these financial statements.

IFRS 16 Leases

IFRIC 23 Uncertainty over
Income Tax Treatments

IFRS 16 has been factored into the
financial statements for 2020.

IFRIC 23 not expected to have an impact
on accounts for 2020.

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.

IFRS 9 Financial Instruments

Notes to the Financial Statements

3. Revenue	2020 £000	2019 £000
Revenue recognised in the Income Statement is analysed as follows:		
Revenue from airport charges	18,909	19,525
Concession revenues	3,264	2,911
Rental income	2,719	2,663
Total revenue	24,892	25,099

4. Other income	2020 £000	2019 £000
Government grants, other grants & services rendered	24,545	21,870
	24,545	21,870

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 2020 and 2019 was as follows:

Revenue		2020 £000	2019 £000
Scottish Government	Operating subsidy	24,355	21,626
Scottish Government	Air Discount Scheme	186	139
Miscellaneous	Miscellaneous	4	105
		24,545	21,870
Capital			
Scottish Government	Operating subsidy and grants	11,549	6,802
and other bodies		11,549	6,802
		36,094	28,672

Notes to the Financial Statements

5. Group operating loss

This is stated after charging/(crediting):	2020 £000	2019 £000
Increase/decrease in fair value of investment properties	(221)	197
Depreciation of property, plant and equipment	8,080	7,917
Amortisation of intangible assets	-	-
Deferred subsidies release	(8,202)	(7,286)
Operating lease payments	-	57
Auditor's remuneration – audit services	37	32

6. Other gains & (losses)

	2020 £000	2019 £000
Gain on disposals of property, plant and equipment	52	30
Increase/(decrease) in fair value of investment properties	221	(197)
	273	(167)

7. Employee benefit expense

	2020 £000	2019 £000
Wages and salaries	23,863	22,171
Social security costs	2,585	2,408
Pension costs	6,470	5,833
Other staff costs	1,063	1,089
	33,981	31,501

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:

	2020 No.	2019 No.
Administration	64	54
Air traffic services	106	95
Airport fire service	188	194
Apron operations	1	1
Engineering	21	21
Management	50	39
Security	228	216
	658	620

Directors' remuneration

	2020 £000	2019 £000
Emoluments	225	218
Pension contributions	29	29

Notes to the Financial Statements

7. Employee benefit expense (continued)

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

	2020 No.	2019 No.
£0 to £5,000	4	-
£5,001 to £10,000	3	3
£10,001 to £20,000	-	-
£20,001 to £60,000	2	2
£140,001 to £145,000	-	1
£145,001 to £155,000	1	-

The emoluments of the highest paid director were £119,473 (2019: £120,404) excluding pension contributions of £29,782 (2019: £29,343).

Caledonian Maritime Assets Ltd charged the group £52,650 (2019: £57,240) for the services of a Director (note 25).

The Law Society of Scotland charged the group £23,184 (2019: £22,320) for the services of the chair.

Mr Lyon was the only director for whom the Group made contributions during the year as a member of the Highlands and Islands Airports Pension Scheme.

8. Finance (costs)/revenue

	2020 £000	2019 £000
Bank interest receivable/(payable)	9	(19)
Other finance (loss)/income	(54)	131
Interest Right Of Use Asset	(13)	-
	(57)	112

Notes to the Financial Statements

9. Taxation

(a) Tax charged in the Income Statement

	2020 £000	2019 £000
Current income tax:		
Current income tax	-	18
Amounts overprovided in previous years	(19)	(22)
Total current income tax	(19)	(4)
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	(19)	(4)
The tax expense in the Income Statement is disclosed as follows:	(19)	(4)

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

	2020 £000	2019 £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	-	-

Notes to the Financial Statements

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% (2019: 19%). The differences are reconciled below:

	2020 £000	2019 £000
Accounting (loss) before income tax	(2,735)	(3,309)
Accounting (loss) multiplied by the UK standard rate of tax of 19% (2019: 19%)	(519)	(629)
Expenses not deductible for tax purposes	44	19
Tax losses carried forward	136	-
Tax losses utilised	(111)	(11)
Government grants exempt from tax	(1,665)	(1,500)
Pension provisions not tax deductible	646	432
Adjustment in respect of prior periods	(19)	(22)
Adjustment in respect of IFRS	(143)	69
Interest on redeemable shares	-	(25)
Adjustment relating to sale of assets	(52)	32
Adjustment relating to tax on UK GAAP	-	-
Net depreciation in excess of capital allowances	1,652	1,609
Share of JV not tax deductible	12	22
Deferred tax movement per note 9 (d)	-	-
Total tax charge reported in the Income Statement	(19)	(4)

(d) Deferred tax

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

	Balance Sheet		Income Statement	
	2020 £000	2019 £000	2020 £000	2019 £000
Deferred tax liability				
Accelerated capital allowances	4,924	-	(4,924)	-
Revaluations of investment properties	175	123	(52)	80
	5,099	123	(4,976)	80
Deferred tax asset				
Accelerated capital allowances	-	4,736	(4,736)	(53)
Pensions	5,348	5,076	272	570
Tax losses carried forward	2,141	1,944	197	123
Deferred revenue	4,622	(5,119)	9,741	6
Deferred tax not recognised	(7,012)	(6,514)	(498)	(726)
	5,099	123	4,976	(80)
Disclosed on the Group and Company Balance Sheet and Income Statement				
Deferred tax (liability)	-	-	-	-

Notes to the Financial Statements

9 (d) Deferred tax (continued)

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

10. Property, plant and equipment

Group	Land and buildings freehold £000	Plant and equipment £000	Construction in progress £000	Total £000
Cost:				
At 1 April 2018	53,820	163,623	8,524	225,967
Additions	196	365	8,361	8,922
Disposals	-	(1,284)	-	(1,284)
Transfers	3,297	7,813	(11,110)	-
At 31 March 2019	57,313	170,517	5,775	233,605
Depreciation and impairment:				
At 1 April 2018	(33,105)	(77,262)	-	(110,367)
Provided during the year	(1,480)	(6,437)	-	(7,917)
Disposals	-	1,254	-	1,254
At 31 March 2019	(34,585)	(82,445)	-	(117,030)
Net book value:				
At 31 March 2019	22,728	88,072	5,775	116,575
At 31 March 2018	20,715	86,361	8,524	115,600

Notes to the Financial Statements

10. Property, plant and equipment (continued)

Group	Land and buildings freehold £000	Plant and equipment £000	Construction in progress £000	Total £000
Cost:				
At 1 April 2019	57,313	170,517	5,775	233,605
Additions	61	211	13,815	14,087
Additions - right of use asset	491	171	-	662
Disposals	(80)	(1,552)	-	(1,632)
Transfers	3,936	4,749	(8,685)	-
At 31 March 2020	61,721	174,096	10,905	246,722

Depreciation and impairment:

At 1 April 2019	(34,585)	(82,445)	-	(117,030)
Provided during the year	(1,522)	(6,491)	-	(8,013)
Provided during the year on right of use asset	(43)	(24)	-	(67)
Disposals	14	1,507	-	1,521
At 31 March 2020	(36,136)	(87,453)	-	(123,589)

Net book value:

At 31 March 2020	25,585	86,643	10,905	123,133
At 31 March 2019	22,728	88,072	5,775	116,575

Company	Land and buildings freehold £000	Plant and equipment £000	Construction in progress £000	Total £000
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Cost:				
At 1 April 2018	50,048	143,197	8,469	201,714
Additions	134	364	8,057	8,555
Disposals	-	(1,223)	-	(1,223)
Transfers	3,275	7,710	(10,985)	-
At 31 March 2019	53,457	150,048	5,541	209,046

Depreciation and impairment:

At 1 April 2018	(30,129)	(66,032)	-	(96,161)
Provided during the year	(1,556)	(6,562)	-	(8,118)
Disposals	-	1,193	-	1,193
At 31 March 2019	(31,685)	(71,401)	-	(103,086)

Net book value:

At 31 March 2019	21,772	78,647	5,541	105,960
At 31 March 2018	19,919	77,165	8,469	105,553

Notes to the Financial Statements

10. Property, plant and equipment (continued)

Company	Land and buildings freehold £000	Plant and equipment £000	Construction in progress £000	Total £000
Cost:				
At 1 April 2019	53,457	150,048	5,541	209,046
Additions	61	205	13,637	13,903
Additions - Right of use asset	491	171	-	662
Disposals	(80)	(1,353)	-	(1,433)
Transfers	3,936	4,372	(8,308)	-
At 31 March 2020	57,865	153,443	10,870	222,178
Depreciation and impairment:				
At 1 April 2019	(31,685)	(71,401)	-	(103,086)
Provided during the year	(1,595)	(6,724)	-	(8,319)
Provided during the year - right of use asset	(43)	(24)	-	(67)
Disposals	14	1,309	-	1,323
At 31 March 2020	(33,309)	(76,840)	-	(110,149)
Net book value:				
At 31 March 2020	24,556	76,603	10,870	112,029
At 31 March 2019	21,772	78,647	5,541	105,960

11. Investment property

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

	Group 2020 £000	Company 2020 £000	Group 2019 £000	Company 2019 £000
Valuation at 1 April	633	633	830	830
Additions	-	-	-	-
Disposals	-	-	-	-
Fair value adjustment	221	221	(197)	(197)
Valuation as at 31 March	854	854	633	633

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

The valuations were performed by Gerald Eve as at 31 March 2020, an accredited independent consultant with a recognised and relevant professional qualification and with recent experience in the location and category of investment properties being valued. The critical assumptions made relating to valuations are set out below:

Yields (%)	2020 6.5% - 24.56%	2019 6.5% - 16.85%
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Notes to the Financial Statements

12. Investments

Group

(a) Investment in joint ventures

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

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

	2020 £000	2019 £000
Share of the joint venture's balance sheet:		
Non-current assets	(84)	(20)
Current assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Share of other reserves	-	-
Share of net (liabilities)/assets	(84)	(20)

	2020 £000	2019 £000
Share of the joint venture's results:		
Revenue	105	94
Net operating expenses	(177)	(214)
Loss before taxation	(72)	(120)
Tax expense	9	3
Loss after taxation	(63)	(117)

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

(b) Details of Group undertakings

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital at 31 March 2020 and 2019 are as follows:

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

Notes to the Financial Statements

12. Investments (continued) Company

	Subsidiary undertakings £000	Joint ventures £000	Total £000
Cost:			
At 1 April 2018	10	1,988	1,998
Acquisitions	-	-	-
Additions	-	-	-
Disposals	-	-	-
At 31 March 2019	10	1,988	1,998
Amortisation and impairment:			
At 1 April 2018	-	-	-
Amortisation during the year	-	-	-
Impairment charges	-	-	-
Disposals	-	-	-
At 31 March 2019	-	-	-
Net book value:			
At 31 March 2019	10	1,988	1,998
At 31 March 2018	10	1,988	1,998

	Subsidiary undertakings £000	Joint ventures £000	Total £000
Cost:			
At 1 April 2019	10	1,988	1,998
Acquisitions	-	-	-
Additions	-	-	-
Disposals	-	-	-
At 31 March 2020	10	1,988	1,998
Amortisation and impairment:			
At 1 April 2019	-	-	-
Amortisation during the year	-	-	-
Impairment charges	-	-	-
Disposals	-	-	-
At 31 March 2020	-	-	-
Net book value:			
At 31 March 2020	10	1,988	1,998
At 31 March 2019	10	1,988	1,998

Notes to the Financial Statements

13. Intangible fixed assets

Group

	Total £000
Cost:	
At 1 April 2018	540
Acquisitions	-
Additions	-
Disposals	-
At 31 March 2019	540
Amortisation and impairment:	
At 1 April 2018	(485)
Amortisation during the year	-
Disposals	-
At 31 March 2019	(485)
Net book value:	
At 31 March 2019	55
At 31 March 2018	55
Cost:	
At 1 April 2019	540
Acquisitions	-
Additions	-
Disposals	-
At 31 March 2020	540
Amortisation and impairment:	
At 1 April 2019	(485)
Amortisation during the year	-
Impairment charges	-
Disposals	-
At 31 March 2020	(485)
Net book value:	
At 31 March 2020	55
At 31 March 2019	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 its 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 51 years at 31 March 2020.

The following useful lives are used in the calculation of amortisation:
Intangibles - 7 to 60 years in relation to the lease contracts

Notes to the Financial Statements

14. Trade and other receivables

Group	2020	2019
	£000	£000
Trade receivables	3,663	3,085
Less: provision for impairment of receivables	(765)	(635)
Trade receivables net of impairment	2,898	2,450
Receivables from joint ventures	2,310	2,258
Prepayments and other accrued income	625	641
Other receivables	1,254	631
	7,087	5,980

Out of the carrying amount of trade receivables of £3,663,000, £2,608,000 relates to 4 major customers.

Company

	2020	2019
	£000	£000
Trade receivables	3,520	2,974
Less: provision for impairment of receivables	(765)	(632)
Trade receivables net of impairment	2,755	2,342
Receivables from joint ventures	2,311	2,258
Prepayments and other accrued income	490	1,047
Other receivables	1,245	556
	6,801	6,203

Out of the carrying amount of trade receivables of £3,520,000, £2,608,000 relates to 4 major customers.

15. Inventories

	Group	Company	Group	Company
	2020	2020	2019	2019
	£000	£000	£000	£000
Aviation fuel	46	0	57	9
	46	0	57	9

Notes to the Financial Statements

16 . Cash and cash equivalents

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

Group	2020	2019
	£000	£000
Cash at bank	3,320	3,105
Short term deposits	-	-
	3,320	3,105

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

Company	2020	2019
	£000	£000
Cash at bank	3,186	2,895
Short term deposits	-	-
	3,186	2,895

17. Trade and other payables

Group	2020	2019
	£000	£000
Loans (note 18)	-	748
Trade payables	1,861	2,233
IFRS lease creditor	602	-
Other creditors and accruals	8,748	6,384
	11,211	9,365

Company	2020	2019
	£000	£000
Loans (note 18)	-	690
Trade payables	1,848	1,989
Amounts owed to other Group companies	900	515
IFRS lease creditor	602	-
Other creditors and accruals	8,084	5,781
	11,434	8,975

Notes to the Financial Statements

18. Loans

Group	2020	2019
	£000	£000
Unsecured loans wholly repayable within five years, repayable in half-yearly instalments	3,468	2,644
Less repayable within twelve months (note 17)	-	(748)
	3,468	1,896

Instalments on the loans included above are repayable as follows:

between one and two years	1,136	754
between two and five years	1,928	1,142
after five years	404	-
	3,468	1,896

Company	2020	2019
	£000	£000
Unsecured loans wholly repayable within five years, repayable in half-yearly instalments	3,412	2,586
Less repayable within twelve months (note 17)	-	(690)
	3,412	1,896

Instalments on the loans included above are repayable as follows:

between one and two years	1,121	754
between two and five years	1,887	1,142
after five years	404	-
	3,412	1,896

At 31 March 2020 the group and company had 6 loans outstanding (2019: 4). The loans are repayable to the Scottish Ministers at an interest rate between 1.73% and 2.00%. The loans are repayable over 5 years and by half yearly installments. There is a payment holiday offered for 2020/21 due to COVID-19 assistance.

19. Deferred subsidies

Group	2020	2019
	£000	£000
Balance at 1 April	115,804	115,405
Subsidies receivable	12,900	7,685
Release to Income Statement	(8,202)	(7,286)
Release against asset disposals	-	-
Balance at 31 March	120,502	115,804

Notes to the Financial Statements

19. Deferred subsidies (continued)

Company

	2020 £000	2019 £000
Balance at 1 April	105,068	105,255
Subsidies receivable	12,713	7,346
Release to Income Statement	(8,453)	(7,533)
Release against asset disposals	-	-
Balance at 31 March	109,328	105,068

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 2020 and 31 March 2019 based on contractual undiscounted payments:

	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Trade and other payables						
At 31 March 2020	-	11,211	-	-	-	11,211
At 31 March 2019	-	8,617	-	-	-	8,617
Borrowings						
At 31 March 2020	-	-	-	3,468	-	3,468
At 31 March 2019	-	-	748	1,896	-	2,644

Notes to the Financial Statements

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	
	2020 £000	2019 £000	2020 £000	2019 £000
Financial assets				
Loans and receivables	-	-	-	-
Trade and other receivables	4,776	3,722	4,776	3,722
Loans receivable	2,310	2,258	2,310	2,258
Financial liabilities				
Trade and other payables	11,211	8,617	11,211	8,617
Borrowings	3,468	2,644	3,468	2,644

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 final salary defined benefit pension schemes – the Highlands and Islands Airports Pension Scheme (HPS) and the Tayside Superannuation Fund (TSF) and one defined contribution scheme. Group member numbers of each fund at 31 March 2020 were 571 (2019: 498) and 68 (2019: 67). Both schemes are operated and located in the United Kingdom and require contributions to be made to separately administered funds.

The People's Pension members at 31 March 2020 for the Group were 252 (2019: 249) and for the Company were 35 (2019: 42). This scheme is monitored by HIAL management through the actuaries.

The values of the scheme obligations have been determined by a qualified actuary based on the actuarial valuation as at 31 December 2019 for the HPS and the valuation as at 31 March 2017 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.

Notes to the Financial Statements

21. Pensions (continued)

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

At 31 March 2019	HPS £000	TSF £000	Total £000
Scheme assets at fair value			
Equities	38,105	6,457	44,562
Gilts	13,594	134	13,728
Other bonds	38,030	1,402	39,432
Property	11,579	1,167	12,746
Diversified growth	28,159	-	28,159
Other	-	22	22
Cash	499	165	664
Fair value of scheme assets	129,966	9,347	139,313
Present value of scheme liabilities	(158,056)	(11,314)	(169,370)
Defined benefit pension scheme deficit	(28,090)	(1,967)	(30,057)

At 31 March 2020	HPS £000	TSF £000	Total £000
Scheme assets at fair value			
Equities	33,389	5,812	39,201
Gilts	-	122	122
Other bonds	39,308	1,555	40,863
Property	11,581	1,111	12,692
Diversified growth	26,482	-	26,482
Other	11,648	44	11,692
Cash	2,513	269	2,782
Fair value of scheme assets	124,921	8,825	133,746
Present value of scheme liabilities	(151,478)	(10,413)	(161,891)
Defined benefit pension scheme deficit	(26,557)	(1,588)	(28,145)

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 2019	HPS £000	TSF £000	Total £000
Recognised in Income Statement			
Current service cost	4,803	430	5,233
Past service cost	158	95	253
Recognised in arriving at operating loss	4,961	525	5,486
Administration cost	293	4	297
Interest cost on scheme assets	(3,299)	(229)	(3,528)
Interest cost on obligations	3,867	266	(3,231)
Other finance cost	861	41	902

Notes to the Financial Statements

21. Pensions (continued)

	HPS £000	TSF £000	Total £000
Taken to the Statement of Comprehensive Income			
Return on plan assets in excess of interest	1,797	184	1,981
Change in demographic assumptions	3,090	318	3,408
Change in financial assumptions	(7,649)	(609)	(8,258)
Actuarial gains recognised in the Statement of Comprehensive Income	(2,762)	(107)	(2,869)

Year ended 31 March 2020	HPS £000	TSF £000	Total £000
Recognised in Income Statement			
Current service cost	5,383	478	5,861
Past service cost	-	-	-
Recognised in arriving at operating loss	5,383	478	5,861
Administration cost	104	3	107
Interest cost on scheme assets	(3,345)	(229)	(3,574)
Interest cost on obligations	4,014	274	4,288
Other finance cost	773	48	821

	HPS £000	TSF £000	Total £000
Taken to the Statement of Comprehensive Income			
Return on plan assets in excess of interest	(8,817)	(734)	(9,551)
Experience losses on liabilities	(3,670)	-	(3,670)
Change in demographic assumptions	(841)	-	(841)
Change in financial assumptions	17,200	1,400	18,600
Actuarial gains recognised in the Statement of Comprehensive Income	3,872	666	4,538

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 2018	146,606	10,195	156,801
Current service cost	4,803	430	5,233
Past service cost	158	95	253
Interest cost	3,867	266	4,133
Benefits paid	(2,774)	(52)	(2,826)
Contributions by scheme participants	837	89	926
Change in demographic assumptions	(3,090)	(318)	(3,408)
Experience loss on liabilities	-	-	-
Change in financial assumptions	7,649	609	8,258
Defined benefit obligation at 31 March 2019	158,056	11,314	169,370

Notes to the Financial Statements

21. Pensions (continued)

	HPS £000	TSF £000	Total £000
Defined benefit obligation at 1 April 2019	158,056	11,314	169,370
Current service cost	5,383	478	5,861
Past service cost	-	-	-
Interest cost	4,014	274	4,288
Benefits paid	(4,205)	(349)	(4,554)
Contributions by scheme participants	919	96	1,015
Change in demographic assumptions	841	-	841
Experience loss on liabilities	3,670	-	3,670
Change in financial assumptions	(17,200)	(1,400)	(18,600)
Defined benefit obligation at 31 March 2020	151,478	10,413	161,891

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 2018	123,590	8,679	132,269
Interest on scheme assets	3,299	229	3,528
Contributions by employer	3,510	222	3,732
Contributions by scheme participants	837	89	926
Benefits paid	(2,774)	(52)	(2,826)
Administration costs	(293)	(4)	(297)
Other actuarial gains	-	-	-
Return on plan assets less interest	1,797	184	1,981
Fair value of scheme assets at 31 March 2019	129,966	9,347	139,313

	HPS £000	TSF £000	Total £000
Fair value of scheme assets at 1 April 2019	129,966	9,347	139,313
Interest on scheme assets	3,345	229	3,574
Contributions by employer	3,817	239	4,056
Contributions by scheme participants	919	96	1,015
Benefits paid	(4,205)	(349)	(4,554)
Administration costs	(104)	(3)	(107)
Other actuarial gains	-	-	-
Return on plan assets less interest	(8,817)	(734)	(9,551)
Fair value of scheme assets at 31 March 2020	124,921	8,825	133,746

Notes to the Financial Statements

21. Pensions (continued)

The Group expects to contribute £4,138,000 to its defined benefit pension plans in 2020/21

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

	HPS		TSF	
	2020	2019	2020	2019
	(%)	(%)	(%)	(%)
Main assumptions:				
Rate of salary increases	1.75	2.20	2.80	3.35
Rate of increase in pensions in payment*	2.55	3.30	1.80	2.35
Discount rate	2.35	2.55	2.35	2.45
RPI Inflation	2.55	3.30	2.80	3.35

*HPS only - Pensions in payment increase in line with RPI for service accrued prior to October 2012 and CPI for service after October 2012. The assumed rate of increase is 2.55% for RPI and 1.75% 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 S2PA table has been used making allowance for future improvements to be in line with the 2018 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.

For the TSF, the S2PA table has been adjusted by 130% (to reflect the particular characteristics of the scheme) making allowance for future improvements to be in line with the 2018 CMI projection model with a long term improvement rate of 1.5% p.a. with a smoothing parameter of 7.0 and the projection is made based on the individual year of birth of each member.

The "Current" disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date, with "Future" being that relating to an employee retiring in 20 years time.

Sensitivities

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

Notes to the Financial Statements

21. Pensions (continued)

Change in assumption

	Salary increased by 0.50% £000	Reduce discount rate by 0.50% £000	Increase inflation by 0.50% £000
Fair value of scheme assets	124,921	124,921	124,921
Present value of defined benefit obligation	(155,605)	(170,106)	(168,743)
Defined benefit pension scheme deficit	(30,684)	(45,185)	(43,822)

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

Change in assumption

	+0.1% £000	-0.1% £000	+1 year £000	-1 year £000
Projected service cost	399	422	424	397
Present value of defined benefit obligation	10,134	10,700	10,767	10,071

The projected pension expense for the year ending 31 March 2020 is as follows:

	HPS £000	TSF £000	Total £000
Current service cost	5,383	478	5,861
Net interest in defined benefit liability	669	45	714
Administration expenses	104	3	107
Total	6,156	526	6,682

Notes to the Financial Statements

21. Pensions (continued)

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

	2020	2019	2018	2017	2016
	£000	£000	£000	£000	£000
HPS					
Fair value of scheme assets	124,921	129,996	123,590	118,857	101,224
Present value of defined benefit obligation	(151,478)	(158,056)	(146,606)	(143,132)	(122,657)
(Deficit)	(26,557)	(28,060)	(23,016)	(24,275)	(21,433)
Experience adjustment on plan liabilities	-	-	(639)	-	-
Experience adjustments on plan assets	(8,817)	1,797	924	11,991	(5,356)
	2020	2019	2018	2017	2016
	£000	£000	£000	£000	£000
TSF					
Fair value of scheme assets	8,825	10,015	8,679	6,613	5,154
Present value of defined benefit obligation	(10,413)	(12,433)	(10,195)	(10,101)	(6,497)
(Deficit)	(1,588)	(2,418)	(1,516)	(3,488)	(1,343)
Experience adjustment on plan liabilities	-	-	325	-	-
Experience adjustments on plan assets	(734)	184	405	1,001	(244)

22. Share capital

	Group and Company	
	2020	2019
	£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

	2020	2019
	£000	£000
Operating loss	(1,794)	(2,402)
Amortisation and impairment of intangibles	-	-
Depreciation of property, plant and equipment	8,080	7,917
Decrease/(increase) in inventories	11	(14)
(Increase)/Decrease in trade and other receivables	(1,055)	422
Decrease in trade and other payables	2,008	534
Deferred subsidies released	(8,202)	(7,286)
Fair value movement on investment properties	(221)	197
Difference between pension contributions and charges	1,805	1,754
Gain on disposal of property, plant and equipment	52	(30)
Cash (used in)/generated by operations	684	1,092

Notes to the Financial Statements

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%.

The following is a reconciliation of the financial statement line from IAS 17 to IFRS 16 at 1 April 2019:

	Carrying amount as at 31 March 2019 £000	Remeasurement £000	IFRS 16 carrying amount 1 April 2019 £000
Right of use assets	-	516	516
Total assets	-	516	516
Lease Liabilities	-	(516)	(516)
Total	-	-	-

The following is a reconciliation of total operating lease commitments at 31 March 2019 (as disclosed in the financial statements to 31 March 2019) to the lease liabilities recognised at 1 April 2019:

	£000	£000
Total operating lease commitments disclosed at 31 March 2019		580
Recognition exemptions:		
Leases with remaining lease term of less than 12 months	-	
Differences between lease commitments used in FY18/19 disclosure and FY19/20 calculation (1)		
Operating lease liabilities before discounting		579
Discounted using incremental borrowing rate		(63)
Differences between lease commitments used in FY18/19 disclosure and FY19/20 calculation		-
Total lease liabilities recognised under IFRS 16 at 1 April 2019		516

As a Lessee

The company leases Campbeltown Airport as well as small equipment such as drink 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.

Notes to the Financial Statements

24. Lease Liabilities (continued)

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. Further information regarding right-of-use assets can be found in note 10.

ii Lease liabilities

Lease liabilities included in the statement of financial position at 31 March 2020 are analysed as follows:

	2020 £000	2019 £000
Current	96	-
Non-current	506	-
	602	-

The lease liability is secured on the related underlying assets. The undiscounted maturity analysis of the lease liability as at 31 March 2020 is as follows:

	2020 £000	2019 £000
Less than one year	108	-
One to five years	287	-
More than five years	264	-
Total undiscounted liabilities at 31 March 2020	659	-

For interest expense in relation to leasing liabilities, refer to finance costs (note 8).

Total cash outflows in respect of leasing liabilities in the year to 31 March 2020 is £73,337.

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.

The expense payment of these leases is £124.

Notes to the Financial Statements

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	2020	2	19	2,311	3
	2019	2	1	2,258	-
In relation to key management personnel:					
Caledonian Air Surveys Ltd	2020	3	-	-	-
	2019	3	-	-	-
Director: T Whittome	2020	1	-	-	-
	2019	1	-	-	-
Caledonian Maritime Assets Ltd	2020	-	30	-	26
	2019	-	60	-	15
The Law Society of Scotland	2020	-	27	-	-
	2019	-	21	-	-
Energy Aviation Services Ltd	2020	-	16	-	-
	2019	-	-	-	-
Intercompany Balances					
DAL	2020	498	-	498	390
	2019	445	-	445	398
AMSL	2020	251	7,382	-	318
	2019	254	6,634	-	117

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

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

Controlling party

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

Notes to the Financial Statements

26. Commitments and contingencies Capital Commitments

Capital Commitments

At 31 March 2020, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £2,701,000 for the Group (2019: £957,000) and £2,605,000 for the Company (2019: £919,000).

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 2020. 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.

Following discussions about the latest actuarial valuation of the HIA Pension Scheme, the Company has granted a security over the terminal building at Inverness Airport to the Scheme's Trustee's in relation to the Company's obligation to the Scheme.

27. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2019 and 31 March 2020.

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



**ANNUAL REPORT AND ACCOUNTS
TO 31 MARCH 2020**

Company Number
SC097647

Registered Office
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IV2 7JB

Auditor
Azets Audit Services

Solicitors
Addleshaw Goddard LLP

Actuaries
Barnett Waddingham LLP

Bankers
Royal Bank of Scotland

