

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

CONTENTS

Page

3	Corporate information
4	Who we are
5	Annual traffic statistics
6	Chairman's statement
7	Aithisg an Cathraiche
8	Managing director's statement
11	Aithisg A'Manaidsear-stiùiridh
14	Strategic report
18	Directors' report
19	Governance statement
22	Statement of directors' responsibilities
23	Independent auditor's report
26	Group income statement
27	Group statement of comprehensive income
27	Company statement of comprehensive income
28	Group statement of changes in equity
28	Company statement of changes in equity
29	Group balance sheet
30	Company balance sheet
31	Group cash flow statement
32	Notes to the financial statements

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
CORPORATE INFORMATION

Directors

Lorna Jack, MA, CA
Inglis Lyon, BSc (Hons) LLB
Gillian Bruton, BAcc, CA
David Savile
Timothy Whittome, BSc (Hons), AMIMechE, MRIN
James McLaughlan, Chartered MCIPD, MBA

Chairman
Managing Director
Finance Director

Company Secretary

Inglis Lyon

Registered Office

Head Office
Inverness Airport
Inverness
IV2 7JB

Registered in Scotland Number SC097647

Auditor

Scott Moncrieff
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Actuaries

Barnett Waddingham LLP
163 West George Street
Glasgow
G2 2JJ

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

WHO WE ARE

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.

Working with stakeholders, we are committed to supporting the essential socio-economic role of aviation in Scotland through the maintenance and development of our airports.

Our core activities are:

- Providing airports which meet regulatory standards and support essential transport connectivity.
- Maintaining and developing airport infrastructure and services.
- Working with airlines and stakeholders to maintain and develop scheduled, charter and freight air services.

Our mission:

To provide and operate safe, secure and efficient airports which support the communities we serve.

Our goal is to:

- Provide airports that enable air transport to fulfil its essential role in Scotland's diverse regions.
- Work with stakeholders to develop sustainable air connectivity that supports socio-economic development in Scotland.
- Advise the Scottish Ministers on future developments and resource allocation through robust strategic planning and effective collaboration with airport users and stakeholders.

Supporting Scotland's sustainable development

We work closely with our customers and stakeholders to ensure that our strategic goals support sustainable development within the communities we serve and are aligned with the policy objectives of the Scottish Government.

Wealthier and Fairer – our airports provide access to air transport connections which support sustainable economic growth and social inclusion.

Healthier – our airports facilitate access to healthcare services for remoter communities.

Safer and Stronger - air links enhance the attractiveness of the communities we serve as places in which to live, work and invest.

Smarter – air links provide access to education, employment, skills and resources which contribute to the socio-economic viability of more remote communities.

Greener – reducing the environmental impact of providing airports through resource efficiency contributes to a greener Scotland.

HIAL was incorporated in Edinburgh on 4 March 1986 as a private limited company. On 1 April 1995, ownership of the company transferred from the UK Civil Aviation Authority to the Secretary of State for Scotland and subsequently to the Scottish Ministers.

HIAL receives subsidies from the Scottish Government in accordance with section 34 of the Civil Aviation Act 1982 and is sponsored by Transport Scotland – Aviation, Maritime, Freight and Canals Directorate.

The 2017/18 HIAL Annual Report and Group Financial Statements have been submitted to the Scottish Ministers.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
ANNUAL TRAFFIC STATISTICS

For the year ended 31 March 2018

	Passengers			Movements		
	2017/18 No.	2016/17 No.	Variance No.	2017/18 No.	2016/17 No.	Variance No.
Barra	14,810	13,552	9.3%	1,406	1,352	4.0%
Benbecula	35,360	33,812	4.6%	3,469	3,578	(3.0%)
Campbeltown	9,133	8,809	3.7%	1,495	1,389	7.6%
Dundee	21,909	38,700	(43.4%)	38,324	35,945	6.6%
Inverness	875,873	829,018	5.7%	30,706	31,138	(1.4%)
Islay	35,057	32,355	8.4%	2,639	2,546	3.7%
Kirkwall	195,982	179,590	9.1%	14,976	14,429	3.8%
Stornoway	139,951	130,905	6.9%	11,167	10,694	4.4%
Sumburgh	419,448	355,667	17.9%	25,628	21,876	17.2%
Tiree	13,201	12,226	8.0%	1,903	1,893	0.5%
Wick	19,797	23,789	(16.8%)	3,907	4,270	(8.5%)
Total	<u>1,780,521</u>	<u>1,658,423</u>	7.4%	<u>135,620</u>	<u>129,110</u>	5.0%

HIGHLANDS AND ISLANDS AIRPORTS LIMITED CHAIRMAN'S STATEMENT

As interim chair of HIAL I have had the privilege to work alongside a talented and committed team of people who are dedicated to delivering aviation services to the communities they serve.

In Scotland, we continue to benefit from enhanced connectivity that supports local communities and business and also plays a key role in enhancing Scotland's thriving tourist industry.

In 2017/18 HIAL welcomed more than 1.7million passengers through our 11 regional airports as the business continues to go from strength to strength.

Inverness Airport continues to develop its offering with new flights announced to Bergen, Zurich and Iceland in the past 12 months. The airport delivers £75million to the Highlands and Islands economy annually through its inbound passengers (Source: 2015 VisitScotland spend per visitor figures average £320/visitor) and it will continue to play a crucial role as the region continues to strengthen direct links with the rest of the world.

HIAL is also committed to supporting the local community and our regional airports have seen increasing passenger numbers flying to our island airports. We have also seen direct air links established with major UK airports such as Glasgow and Manchester.

Strong demand on flights from Glasgow to Barra, Islay and Kirkwall saw increases in passenger numbers at these airports.

Travel in the future will no doubt be markedly different from how it is today and the challenge for HIAL is how best to future proof our aviation services provision.

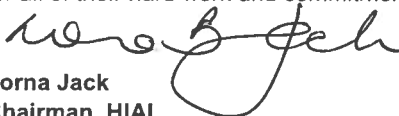
The implementation and delivery of our ATM 2030 air traffic management project, including a new remote tower and surveillance centre, is the largest and most complex project HIAL has ever undertaken. We know it will be challenging for our colleagues and for the communities we serve, which is why we are committed to undertaking a thorough consultation and engagement process that takes into account views of HIAL staff, local people, business leaders and local authorities to ensure the best decisions are made.

Prioritising aviation service delivery to the islands and other locations we serve is all about supporting those communities from both economic and social perspectives.

In addition, we are focused on communicating directly with the UK Government as it shapes its aviation strategy over the coming months and years. Ensuring we have guaranteed slots at the proposed third runway at London Heathrow is of paramount importance.

It is vital that we continue to put our communities and customers first whilst endeavouring to sustain an organisation that cares for all its staff. After all, they are the ones who work day in, day out to deliver the award-winning services we are known for.

I would like to end with a thank you to our staff team; my fellow Board members and colleagues at Transport Scotland for all of their hard work and commitment in a year of change and challenge.



Lorna Jack
Chairman, HIAL

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
AITHISG AN CATHRAICHE

Mar charaiche eadar-amail HIAL 's e prìobhadh shònraichte a th' ann dhomh a bhith ag obair còmhla ri sgioba tàlantach agus coisrigte airson seirbheis-adhair a libhrigeadh dha na coimhearsnachdan.

Ann an Alba, tha sinn fhathast a' faighinn buannachd à comas-ceangail a tha toirt taic do choimhearsnachdan agus gnìomhachasan ionadail a tha cuideachd cudromach airson togail luach roinn na turasachd.

Ann an 2017/18, chuir HIAL fàilte air còrr air 1.7 millean luchd-siubhail tro ar 11 puirt-adhair roinneil fhad sa tha a' bhuidheann a' dol bho neart gu neart.

Tha Port Adhair Inbhir Nis a' leantainn an leasachaidh thathar a' toirt seachad le turais-adhair ùra air ainmeachadh gu Bergen, Zurich agus Innis Tìle thar na bliadhna a chaidh seachad. Tha a' Phort Adhair a' libhrigeadh £75 millean dha eaconamaidh na Ghàidhealtachd agus nan Eilean tron luchd-siubhail a bhios a' tighinn a-steach (Ceann-seanchais: Figearan caitheamh airgead gach neach tadhail 2015 VisitScotland cuibheas £320 gach neach) agus leanaidh seo a bhith cudromach fhad sa tha an roinn a' neartachadh na ceangalan leis a' chòrr dhen t-saoghail.

Tha HIAL cuideachd a' toirt taic do choimhearsnachdan ionadail agus tha àireamhan luchd-siubhail gu na h-eileanan againn, air fàs. Tha sinn cuideachd air faicinn ceangalan-adhair dìreach air tòiseachadh le prìomh puirt-adhair RA mar Glaschu agus Manchester.

Dh' fhàs àireamhan luchd-siubhail aig turas-adhair Glaschu gu Barraigh, Ile agus Baile na h-Eaglais as dèidh iarratas làidir air na turais-adhair.

Bidh dòighean-siubhail anns a t-àm ri teachd gu math eadar-dhealaichte bhon latha an-diugh agus tha dùbhlain aig HIAL dèanamh cinnteach gum bi na seirbheisean-adhair againn seasmach anns an t-àm ri teachd.

Tha pròiseict againn an dràsta an stiùiriche trafaig-adhair ATM 2030 a libhrigeadh agus a thoirt gu buil, agus 's e seo a' phròiseict as motha agus as duilich a rinn HIAL a riamh.

Tha sinn a' cur prìomhachais air libhrigeadh seirbheis-adhair do na h-eileanan agus àitean eile a tha sinn a' fritheil agus tha seo a' ciallachadh gu bheil taic eaconamach agus sòisealta a' dol gu na coimhearsnachdan seo.

A bharrachd air an seo, tha sinn ann an conaltradh le Riaghaltas an RA nuair a thathar a' cruthachadh ro-innleachd-adhair thar na mìosan agus bliadhnaichean tha romhainn. Tha e uabhasach cudromach gum faigh sinn àite-barantas aig an treas raon-laighe aig Heathrow Lunnainn.

Tha e cudromach gum bi sinn a' cumail oirnn a' cur ar coimhearsnachdan agus ar luchd-ceannaich an toiseach agus aig an aon àm a' dèanamh ar dicheall cumail suas buidheann a tha coibhneil ris an luchd-obrach. Aig deireadh an latha, 's e iadsan a tha ag obair a h-uile latha airson na seirbheisean air a bheil sinn deagh-aithnichte a thoirt seachad.

Airson crìoch a chur air seo, bu chaomh leam taing a thoirt dhan sgioba obrachaidh; buill na Bùird agus co-obraichean aig Còmhhdhail na h-Alba airson a bhith ag obair gu cruaidh agus airson an dealas a bh' aca ann am bliadhna a bha dùbhlach.



Lorna Jack
Cathraiche, HIAL

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

MANAGING DIRECTOR'S STATEMENT

Introduction

Planning for the future and long-term sustainable aviation connectivity has been our focus for several years and I make no apology for reiterating these aims as I review the past year and also look forward to all that we must achieve to move forward.

Over the last year we achieved some major milestones: 875,000 passengers at Inverness Airport, record numbers at Sumburgh, in Shetland, and new direct routes to Manchester from Stornoway. Each of these achievements illustrate the importance and success of Scotland's regional airports.

We have seen new and additional flights to some of Europe's busiest transport and business airports, meaning businesses across our network can connect with hundreds of destinations around the world through hubs such as Amsterdam, Dublin, Gatwick and Heathrow. The benefits for local export businesses, now able to reach new markets around the globe, has been transformational.

Scotland is experiencing remarkable tourism growth and we are thrilled to play a part showcasing its beauty and history. HIAL airports play a key role in ensuring visitors can access the beauty and hospitality our country is renowned for.

Further development, investment and improvement in connectivity for the Highlands is not only good for tourism, but crucial to attract new inward investment and enhanced business opportunities. Ultimately, better access will lead growth and help the region to prosper.

Clearly, there are challenges ahead, but also opportunities.

To help safeguard air services in the Highlands in future, HIAL is committed to investing in new remote towers technology as part of our Air Traffic Management (ATM) transformation to a digital future.

The ATM 2030 Programme will change the way air traffic services are provided at seven HIAL airports by centralising activities in a centralised tower and surveillance centre and modernising the way airspace is managed. This will improve on our already high safety levels and will provide greater resilience to our operation leading to better services for our customers. Our air traffic control staff and other key stakeholders have been fully involved in the process to date and we will continue to engage with them and the wider audience as the project develops.

In other areas, we are cooperating closely with the UK Government on securing vital slots at the proposed third runway extension at Heathrow. We are also focused on delivering our new strategic plan to ensure long term growth albeit against an uncertain backdrop as Brexit continues to dominate the domestic political and economic landscape.

Whilst we must all await the outcome of negotiations between Britain and Europe it is important HIAL continues to concentrate on making improvements in connectivity for the region.

We'll do this by continuing to work efficiently and collaboratively, using the region's best asset - our people. Our business and the region benefits from their input, day in and day out, 24 hours a day and 365 days per year. I am grateful to all of them.

Group operating performance

HIAL is wholly owned by the Scottish Ministers and as a publicly-owned organisation our priority is to ensure we deliver best value to the Scottish taxpayer by improving efficiencies and minimising overheads.

During the year, HIAL received a public subsidy of £29,244,000 including revenue funding of £20,609,000 and capital funding of £8,635,000. This funding was used to support airfield operations and fund terminal and airfield enhancements.

HIAL operates within a tight budgetary framework. This means we must continue to achieve economies of scale where possible, managing costs without compromising safety in any way. The organisation must continue to be innovative and adaptive, seeking new business opportunities wherever possible.

The operating loss for the year was £2,205,000 compared to £8,000 the previous year.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED MANAGING DIRECTOR'S STATEMENT

Passenger numbers

It has been another record year for passenger figures across the HIAL group, in 2017/18 1.8 million passengers travelled through our airports – an increase of 7.4% on the previous year.

Highlights include a 17.9% growth in numbers at Sumburgh Airport, a 9.3% year-on-year increase at Barra, 9.1% additional customers at Kirkwall, and 8.4% more passengers at Islay.

Sumburgh welcomed 63,781 more passengers during the period with an increase in scheduled flights supporting the oil and gas sector and an increase in offshore traffic, while Tiree's numbers grew by 8%.

Inverness passenger numbers increased by 46,855 for the financial year, further illustrating the airport's importance in terms of global connectivity and as a driver for the Highland region and economy. The continuation of the airport's Heathrow and Amsterdam Schiphol flights helped to boost numbers to 875,873.

Strong demand on flights from Glasgow to Barra, Islay and Kirkwall saw increases in passenger numbers at these airports, with Kirkwall attracting 195,982 passengers.

Robust growth was observed at nine of the organisation's eleven airports across Scotland.

Passenger numbers declined at Wick John O'Groats (-16.8%), due in part to a continued reduction in demand from energy sector services to-and-from Aberdeen, while Dundee (-43.4%) also recorded a reduction in numbers due to the loss of KLM's Dundee to Amsterdam route.

Benbecula and Campbeltown airports logged 4.6% and 3.7% year-on-year growth respectively.

Investment

Over the course of the year, HIAL has invested more than £9,903,000 to improve air services and the passenger experience for customers across Scotland.

In January 2018, HIAL announced plans to 'future proof' its operations in Scotland with ATM 2030, with an estimated £28 million investment, over the next ten to fifteen years, in state-of-the-art air traffic management technology. The long-term remote towers and centralised approach surveillance control programme will mirror an already successful project in Sweden and transform the organisation's operations at key airports including Stornoway, Inverness and Dundee.

In April, HIAL held a two day exhibition of air traffic management technology to showcase the technology inviting over 250 shareholders to improve knowledge and understanding of the new and emerging Air Traffic Management Technology in use across Europe.

Customer service

Inverness Airport was named one of the UK's top most accessible airports for disabled passengers in a report published by the Civil Aviation Authority. Sumburgh Airport, on Shetland was also acknowledged for the high quality of assistance provided over a 12-month period.

Inverness Airport has also enhanced its facilities for visitors with additional needs with the opening of a new 'Changing Places' restroom, offering a safe and comfortable space outside of the home environment.

The new Changing Places restroom has been located within the main terminal building in an area accessible to visitors flying in and out of Inverness Airport along with the public from the local community. The new facility will be registered on the Changing Places App to enable users to locate it from far and wide.

Route Development

HIGHLANDS AND ISLANDS AIRPORTS LIMITED MANAGING DIRECTOR'S STATEMENT

HIAL has placed significant focus on developing new routes and the airports' offering has improved, with new routes to Norway's Bergen as well as a flights from Inverness to Zurich and Iceland .

These additional services to Bergen further increase connectivity between Scotland and Norway thus helping to provide services which meet the needs of business.

The addition to the existing profile of summer routes already on offer from Inverness, which includes major cities and holiday destinations, all offer an additional travel choice for local residents, as well as bringing new visitors in to the Highland region.

Our people

HIAL is a major employer in the Highlands and Islands, with a team of over 600 across our 11 airports and Inverness head office.

Our staff perform crucial roles from administration and finance, to IT, business development, human resources, air traffic control, fire service, security and customer service. We are committed to ensuring that our teams are trained to the highest standard and receive the support, encouragement and recognition that they deserve.

In addition to their core hours, some of our teams undertake on call services for the Scottish Ambulance Service, and carry out fire fighting duties for the SFRS at some of our remote island locations. At Kirkwall and Sumburgh we undertake training for various marine organisations and local authority airports saving island based organisations time, effort and money by keeping it on the island.

Across all of the disciplines we employ a team of truly remarkable individuals who work as a team for their communities for which we are all very grateful.

The future

Our role is to ensure we operate a sustainable airport network that can continue to function not only today, but well into the future and by using some of the latest technology we will be able to do so whilst accommodating increasing demands from airlines.

Our overriding priority is and always will be to deliver safe and secure air navigation services that will keep our airports open for the local communities we serve now and into the future.



Inglis Lyon
Managing Director, HIAL

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

AITHISG MANAIDSEAR-STIÙIRIDH PUIRT ADHAIR NA GÀIDHEALTACHD IS NAN EILEAN

Tha fòcas againn airson grunn bhliadhnaichean air planadh airson an t-àm ri teachd agus comas-ceangail adhair-sheòladh seasmhach fad-ùine agus feumaidh mi ath-aithris a dhèanamh air na h-amasan seo fhad sa tha mi coimhead air ais air a' bhliadhna a chaidh seachad agus a' coimhead air adhart ris na th' againn ri choileanadh airson gluasad air adhart.

Thar na bliadhna a chaidh seachad tha sinn air ioma chlach-mhìle a thoirt gu buil: barrachd air 875,000 luchd-siubhail aig Port-adhair Inbhir Nis, an àireamh as motha a-riamh aig Port-adhair Sumburgh ann an Sealltainn, agus slighean ùr gu Manchester à Steòrnabhaigh. Tha iad seo a' sealltainn cho cudromach agus cho soirbheachail sa tha puirt-adhair roinneil na h-Alba.

Tha sinn air turais-adhair a bharrachd agus ùra fhaicinn gu feadhainn dhe na h-ionadan còmhhdail agus gnìomhachasan as trang anns an Roinn Eòrpa, a' ciallachadh gun urrainn do gnìomhachasan thar ar lionra ceangail le ceudan de chinn-uidhe air feadh an t-saoghail tro ionadan mar Amsterdam, Bail'-Ath-Cliath, Gatwick agus Heathrow. Tha na buannachdan a thaobh gnìomhachasan as-mhalairt ionadail, a tha a-nis a' ruigeil margaidean ùra thar an t-saoghail, air atharrachadh gu mòr.

Tha roinn na turasachd a' fàs air leth ann an Alba agus tha sinn toilichte pàirt a chluich le bhith a' sealltainn am bòidhchead is an t-eachdraidh. Tha puirt-adhair HIAL gu math cudromach ann a bhith a' dèanamh cinnteach gum faigh luchd-turais cothrom eòlas fhaighinn air am bòidhchead is aoigheachd ar dùthaich.

Tha leasachadh, airgead seilbh agus adhartas a bharrachd air ceangalan airson na Gàidhealtachd math airson roinn na turasachd is cuideachd cudromach a thaobh tarraing airgead in-sheilbh ùr agus barrachd chothroman airson gnìomhachasan. Aig a' cheann thall, cuidichidh inntrigidh nas fheàrr le fàs agus soirbheachas an roinn.

Gu soillearachd, tha dùbhlain mu ar coinneamh ach tha cuideachd cothroman ann

Airson dìon a thoirt air seirbheisean-adhair na Gàidhealtachd san t-àm ri teachd, tha HIAL fo chùmhnannt airgead seilbh a chuir ann an teicneolas togalaich ionadail ùr mar phàirt dhen ath-dhealbhadh stiùireadh trafaig-adhair (ATM) airson àm ri teachd didseatach.

Atharraichidh a' Phrògram ATM 2030 an dòigh anns a bheil seirbheisean trafaig-adhair air an toirt seachad aig na seachd puirt-adhair aig HIAL le bhith a' meadhanachadh gnìomhachasan ann an togalach le ionad sgrùdaidh agus a' nodhachadh an dòigh anns a bheil rùm-adhair stiùirichte. Bheir seo leasachadh air an inbhe a th' againn agus a tha mu thràth teàrainteachd gu mòr agus bheir e sùbailteachd dhan gnìomhachd, a' toirt seirbheis nas fheàrr dhan luchd-ceannaich.

Tha sinn air a bhith a' cumail an sàs ris ar luchd-obrach ceannsachadh trafaig-adhair agus le luchd-ùidhe mu dheidhinn a' phròiseas agus leanaidh sinn oirne air seo agus le luchd-èisteachd nas fharsaing fhad sa tha a' phròiseict a' leasachadh.

Ann an roinnean eile, tha sinn ag obair gu dlùth le Riaghaltas an RA airson àitean riatanach fhaighinn air leudachadh an treas raon-laighe ùr a tha air a mholadh aig Heathrow. Tha sinn cuideachd a' cur fòcas air a' phlana ùr ro-innleachdach a tha sinn a' libhrigeadh airson fàs fad-ùineach ged a tha dealbh-cùil mì-chinnteach ann fhad sa tha Brexit fhathast ceannasach ann an suidheachadh na poilìtigis agus an eaconamaidh.

Tha e cudromach gun cùm HIAL air adhart a bhith a' dèanamh leasachaidhean a thaobh comas-ceangail nuair a tha sinn a' feitheamh airson buil cho-dheasbaidhean eadar Breatainn agus an Roinn Eòrpa.

Nì sinn seo le bhith ag obair gu h-èifeachdach ri chèile, a' cleachdadh an so-mhaoin as fheàrr san roinn – ar sluagh.

Tha ar buidheann agus ar roinn a' buannachadh bhon obair aca a h-uile latha, 24 uairean a thide agus 365 latha gach bliadhna. Tha mi gu math taingeil dhan a h-uile duine.

Dèanadas obrach na buidhne

Mar bhuidheann phuirt-adhar poblach a tha sealbhaichte le Ministearan na h-Alba, tha tùs-chothrom aig HIAL dèanamh cinnteach gu bheil luach math airson airgead a thoirt seachad gu luchd-pàigheadh nan cis le bhith a' toirt adhartas air comas agus a' lughdachadh cosgaisean cunbhalach.

Thar na bliadhna, fhuair HIAL tabhartas poblach de £29,244,000 a' toirt a-steach maoin-airgead teachd-a-

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

AITHISG MANAIDSEAR-STIÙIRIDH PUIRT ADHAIR NA Gàidhealtachd IS NAN EILEAN

steach £20,609,000 agus bha lughdaichte airgead-calpa a' toirt a-steach £8,635,000. Chleachdar am maoin airgid seo airson iomairtean raon adhair agus airson maoin a thoirt air leasachadh togalach-uidhe agus raon adhair.

Tha HIAL ag obair le buidseat teann. Tha seo a' ciallachadh gum feum sinn 'economies of scale' a choileanadh far am bith e comasach seo a dhèanamh, a' stiùireadh cosgaisean gun a bhith, ann an dòigh sam bith, a' toirt buaidh air sàbhailteachd. Feumaidh sinn a bhith nua-thionnsgach agus co-fhreagrach, a' lorg cothroman airson gnìomhachas far a bheil e comasach.

B' e call obrachaidh airson na bliadhna £2,205,000 an taca ri £8,000 a' bhliadhna roimhe.

Àireamh luchd-siubhail

Chlàr HIAL a' bhliadhna as fheàrr a riamh a thaobh àireamh luchd-siubhail, ann an 2017/18 faisg air 1.8 millean luchd-siubhail tro ar puirt-adhair – fàs de 7.4% air a' bhliadhna roimhe.

Thug seo a-steach fàs 17.9% ann an àireamh luchd-siubhail Port Adhair Sumburgh, àrdachadh 9.3% ann am Barraigh, 9.1% luchd-siubhail a bharrachd aig Baile na h-Eaglais, agus 8.4% a bharrachd luchd-siubhail aig Ile.

Chuir Sumburgh fàilte air 63,781 luchd-siubhail a bharrachd rè an t-àm seo le fàs ann an turais-adhair clàraichte a' toirt taic dha roinn na h-ola agus a' ghas agus àrdachadh ann an trafaig thall thairis, agus dh' fhàs àireamhan Tiriodh le 8%.

Dh' fhàs àireamhan luchd-siubhail Port Adhair Inbhir Nis le 46,855 airson na bliadhna ionmhais a' toirt ath-neartachadh a bharrachd air cho cudromach 's a tha a' phort adhair gu cruinneil ann a bhith a' draibheadh eaconamaidh na Gàidhealtachd. Tha buanachadh aig turais-adhair Heathrow agus Amsterdam Schiphol a thaobh spionnadh a thoirt do dh'àireamhan luchd-siubhail gu 875,873.

Bha àrdachadh anns an àireamh luchd-siubhail aig puirt-adhair Glaschu gu Barraigh agus Ile gu Baile na h-Eaglaise as dèidh iarratas làidir, le Baile na h-Eaglaise a' tarraing a-steach 195,982 luchd-siubhail.

Chunnaicear fàs làidir aig naoi dhe na aon-deug puirt-adhair thar Alba.

Bha lùghdachadh ann an àireamh luchd-siubhail Inbhir Uige Taigh Iain Ghròt (-16.8%), pàirt dhen adhbhar airson seo, beagachadh anns an iarratas airson roinn na cumhachd gu-agus-bho Obar Dheathain Aig Dun-Dè (-43.4%) cuideachd a' clàradh lughdachadh sna h-àireamhan as dèidh call an t-slighe KLM eadar Dun-Dè gu Amsterdam.

Chlàr Puirt Adhair Beinn a' Bhaoghla agus Ceann Loch Chille Chiarain 4.6% agus 3.7% fàs fa leth.

Airgead Seilbh

Rè na bliadhna, chuir HIAL airgead-seilbh nas motha na £9,903,000 airson leasachaidh seirbheisean agus eòlas luchd-siubhail airson luchd-ceannachd air feadh na h-Alba.

Anns an Fhaoilleach 2018, dh'ainmich HIAL planaichean airson dìon a thoirt air obrachadh na buidhne san t-àm ri teachd ann an Alba, le ATM 2030, le airgead-seilbh timcheall air £28 millean, thar deich gu 15 bliadhna, ann an stiùiriche teicneolas trafaig-adhair ùr-nodha. Bidh na togalaichean ionadail ùine fhada agus dòigh-obrachaidh meadhanaichte a thaobh program smachd uidheam-caithris coltach ri pròiseict shoirbheachail anns an t-Suain agus nì e cruth-atharraich air dòigh-obrach na buidhne aig puirt-adhair sònraichte a' toirt a-steach Steòrnabhagh, Inbhir Nis agus Dun-Dè.

Anns a' Ghiblean chur HIAL taisbeanadh air dòigh air teicneolas stiùiriche trafaig-adhair airson sealltainn do dhaoine an teicneolas agus a' toirt cuireadh do 250 luchd-earrann airson fios a thoirt dhaibh agus tuigse fhaighinn air an teicneolas stiùiriche trafaig-adhair a thathar a' cleachdadh air feadh na Roinn Eòrpa.

Seirbheis luchd-ceannaich

Chaidh Port Adhair Inbhir Nis air ainmeachadh mar aon dhe na puirt-adhair as fheàrr a thaobh ruigsinneach luchd-siubhail ciorramaich ann an aithisg air fhoillseachadh le *Catharra* nam Plèanaichean. Chaidh Port Adhair Sumburgh ann an Sealtainn aithnichte airson an t-seirbheis cuideachaidh a thug iad seachad thar 12 mìosan.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
AITHISG MANAIDSEAR-STIÙIRIDH PUIRT ADHAIR NA GÀIDHEALTACHD IS NAN EILEAN

Tha leudachadh air a thighinn air Port Adhair Inbhir Nis le goireasan ùra airson luchd-siubhail le iarrtasan a bharrachd le bhith fosgladh rùm-fois ùr 'Changing Places', a' tairgsinn àite sàbhailte agus comhfhurtail.

Tha an rùm-fois Changing Places ri fhaighinn air taobh a-staigh a' phrìomh thogalach ann an àite a tha furasta fhaighinn thuige airson luchd-siubhail a' siubhail a-mach à agus a' tighinn a-steach dhan phort-adhair agus cuideachd airson luchd-poblach bhon choimhearsnachd fhèin a chleachdadh. Tha a' ghoireas clàraichte air App an Changing Places airson cothrom a leigeil dhaibh fhaighinn bho àite faisg agus bho fada falbh.

Leasachadh Slighean

Tha HIAL air fòcas sònraichte a chur air a bhith a' leasachadh slighean ùra agus tha piseach a thighinn air tabhartas na puirt-adhair, le slighean ùra bho Inbhir Nis gu Zurich agus Innis Tìle.

Tha na seirbheisean a bharrachd gu Bergen a' toirt fàs air ceangalan eadar Alba agus Nirribhidh, a' cuideachadh le bhith a' toirt seachad seirbheisean a bhios coileanadh feuman a' ghnìomhachais.

Tha na slighean ùr à Inbhir Nis, a' toirt a-steach bailtean mòra agus cinn-uidhe làithean-saor, uile gu leir a' toirt cothrom a bharrachd do dhaoine a tha siubhail airson daoine a' fuireach gu h-ionadail, agus cuideachd airson a bhith a' toirt luchd-turais ùra a-steach dhan Ghàidhealtachd.

Ar Luchd-Obrach

'S e prìomh fastaiche a tha ann HIAL sa Ghàidhealtachd is na h-Eileanan, le sgioba còrr air 600 luchd-obrach thar ar 11 puirt-adhair agus aig ar prìomh oifis ann an Inbhir Nis.

Bidh iad ag obair ann an grunn dhreuchdan eadar-dhealaichte bho clèireachd agus ionmhais, gu IT, leasachadh gnòthachais, goireasan daonna, stiùireadh trafaig-adhair, seirbheis smàlaidh, sàbhailteas is seirbheis luchd-ceannachd. Tha sinn dealasach airson dèanamh cinnteach gum faigh ar luchd-obrach trèanadh gu an ìre as àirde agus gum faigh iad misneachadh agus an aithne a tha iad a' coisinn.

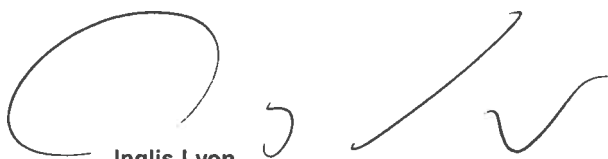
A bharrachd air bun-uairean obrach, tha feadhainn den bhuidhnean againn ag obair tro seirbheisean air ghairm airson an t-seirbheis Charbadan-eiridinn agus a' dèanamh obair-smàlaidh airson an SFRS aig àitean iomallaich anns na h-eileanan againn. Aig Baile na h-Eaglais agus Sumburgh, tha sinn a' toirt seachad trèanaidh airson buidhnean-mara agus puirt-adhair ughdarrasan-ionadail, a' sàbhalachadh t-side gnìomhachasaidh na h-eileanan agus oidhirp agus airgead le bhith nan cumail anns na h-eileanan.

Tha sinn a' fastadh buidhnean làn dhaoine iongantach thar a h-uile dìosaplan a bhios ag obair còmhla ri chèile mar sgioba airson na coimhearsnachdan aca agus tha sinn uile gu math taingeil dhaibh.

An t-àm ri teachd

Tha obair againn airson dèanamh cinnteach gum bi sinn a' toirt seachad lìonra puirt-adhair a bhios ag obrachadh chan e a mhàin an diugh, ach anns an t-àm ri teachd agus le bhith cleachdach teicneolas ùr, 's urrainn dhuinn seo a dhèanamh aig àm a tha iarrtas bho bhuidheann-adhair a' fàs.

Tha prìomh-chùis againn an còmhnaidh airson libhrigeadh seirbheisean sàbhailte agus tèarainte a bhios a' cumail ar puirt-adhair fosgailte airson na coimhearsnachdan ionadail an diugh agus anns an t-àm ri teachd.



Inglis Lyon
Manaidsear Stiùiridh HIAL

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

STRATEGIC REPORT

The directors submit their Strategic Report and the Group financial statements for the year ended 31 March 2018.

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 underlying performance of the company showed continued success in reducing the cost of sales and delivering value for money for the taxpayer.

The parent company loss after taxation amounted to £2,663,000 (2017: profit £136,000). The directors recommend that no dividend be paid.

Review of the business

Public subsidies received for the year ended 31 March 2018 totalled £29,075,000 (2017: £36,451,000) made up of revenue of £20,440,000 (2017: £20,164,000) and capital of £8,635,000 (2017: £16,287,000).

Passenger numbers across the Group increased by 7.4% and aircraft movements increased by 5.0%. Excluding Dundee Airport these variances have increased by 8.6% and an increase of 4.4% respectively. Freight tonnage increased by 24.6%.

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 forecast 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, Scottish Environmental Protection Agency and security standards are set by the Department for Transport and 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. In mitigation of the risks identified above, the Scottish Government has a budget of up to £29,300,000 for the financial year 2018/19 and this may be amended due to operational circumstances and by agreement with the Scottish Government and the Group. As outlined in the going concern statement on page 17, this is considered by the directors to be adequate to sustain the Group as a going concern.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

STRATEGIC REPORT

Key performance indicators

The Board consider the following to be key performance indicators:-

Supplier payment policy and practice

It is group policy that payments to suppliers are made in accordance with terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 March 2018 the group had an average of 33 days' purchases owed to trade creditors (2017: 24 days).

Capital expenditure

Investment in property, plant and equipment amounted to £9.9m. Major works undertaken included:

- a) Inverness - £941k on Approach Lighting, £350k Radar Data Processing System, £260k environmental drainage System and £161k Met Equipment.
- b) Stornoway - £1.9m on the Overlay of Taxiway C & B, £284k on Carpark updating and £214k on Met Equipment.
- c) Sumburgh - £381k Replacement Window to Visual Control Room building and £118k on Car Park Barrier/Payment .
- d) Benbecula - £438k on Coast Protection Phase 3 and £200k on Met Equipment.

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 2017/18 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.

HIAL continue to engage with the European initiative regarding the introduction of Global Navigation Satellite Systems (GNSS) instrument approaches all 11 airports. GNSS instrument approaches were successfully introduced at Wick and Kirkwall during this year bringing the total number of airports that now have GNSS instrument approaches to six. The remaining five airports will be completed during 2018/19.

ATM Strategy 2030 is HIAL's mid to long term Air Traffic Management (ATM) strategy. Whilst enhancing safety and efficiency this strategy will see the company transition to a more sustainable, more cost effective, 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.

Inverness:

Inverness Airport continues with an Airspace Change Proposal to introduce controlled airspace at Inverness Airport in pursuit of economic, efficiency and environmental improvements.

Benbecula, Dundee, Kirkwall, Stornoway, Sumburgh and Wick:

HIAL will continue to provide an Air Traffic Service (ATS) to meet customer requirements. This includes providing on call response for lifeline services including air ambulance and search and rescue. We expect to transition from standalone Approach Procedural Services to a new centralised surveillance service using new surveillance tools and remote tower technologies as they become available (see ATM Strategy above). As part of the ATM Strategy, we will introduce controlled airspace at all of the above airports with the exception of Sumburgh airport, which already has controlled airspace. National Air Traffic Services (NATS) continue to provide the radar approach service to Sumburgh Airport. Benbecula and Stornoway completed the replacement of Meteorological Equipment in 2017/18, with the remaining ATC Units following in 2018-20. Inverness are expected to replace their voice communication system in 2018/19, with Kirkwall, Sumburgh and Dundee following in 2019/20. NDB NAVAID facilities at Kirkwall and Campbeltown are expected to be replaced in 2018/19 pending structural inspection reports.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED STRATEGIC REPORT

Barra, Campbeltown, Islay and Tiree:

HIAL will continue to provide a basic air traffic service (a flight information service (AFIS)) to meet the requirements of our customers.

Human Resources

The primary focus of HR in 2017/18 has been the development of a People Plan identifying the core areas for development throughout the year. A significant element of the plan is ensuring that the company is resourced appropriately for now and for the future.

A major focus is the management of the establishment figures. The headcount for 2017/18 decreased from 617 to 613. The full-time equivalent (FTE) figure has reduced from 557.8 to 553.01 which is a further reduction on the 2015/16 figure of 572.8.

The vast majority of staff are employed on contracts with guaranteed hours, however a very small proportion are employed on a relief basis to provide flexibility and support core service delivery at peak periods. Relief staff represent 4.05% of the overall establishment.

Turnover of staff increased from an average of 7.9% in 2016/17 to 10.6% in 2017/18. This average masks the variation across the three companies with the highest turnover continuing to be in the area of security at 15.2%. Further work is required to identify the reasons for the high levels of turnover within security and to establish if patterns emerge across the 11 airport locations.

Recruitment continues to account for a large proportion of the HR workload with 122 vacancies filled in the year. This represents an increase of 34% on the previous year. Not all recruitment relates to vacancies with a proportion accounted for as a result of promotions and transfers. In total 67 staff left the company and there were 73 new joiners in the last year.

People Processes and Systems

Another significant area within the People Plan is ensuring the company has in place efficient and effective policies, processes and systems for the management of staff. The company completed the triennial Investors in People (IiP) review to retain the standard and undertook an Equal Pay Audit as well as reporting on the Gender Pay Gap.

In 2016/17 a large review of our attendance management policy was undertaken through a joint company and Trade Union working group. This was part of an increased drive to ensure absence was managed effectively and absence levels were reduced with employees receiving appropriate support to return to work as soon as possible. In 2016/17 the overall average number of sick days per employee was 10.42 days. In 2017/18 this had reduced to 9.42 days. There will continue to be a focus for the coming year but the reduction is evidence that the review of Attendance Management has had a positive impact.

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 2018 was set at up to £36.1 million (including up to £19.6 million of revenue subsidy) and this was drawn down during the year. The operating subsidy budget has been set at up to £38.8 million (including up to £20.9m of revenue subsidy) for the year ending 31 March 2019. 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 liability the group has a net deficit of £24.532m (2017: £27.763m) and the company has a net deficit of £23.016m (2017: £24.275m) at 31 March 2018. This deficit results from bringing a long term pension liability onto the balance sheet and does not reflect the group or company's ability to continue as a going concern or to meet its liabilities as they fall due. Accordingly the group and the company continue to adopt the going concern basis in preparing their annual financial statements.

**HIGHLANDS AND ISLANDS AIRPORTS LIMITED
STRATEGIC REPORT**

By order of the board



Inglis Lyon
Company Secretary
04 September 2018



HIGHLANDS AND ISLANDS AIRPORTS LIMITED DIRECTORS' REPORT

The directors submit their report and the group financial statements for the year ended 31 March 2018.

Directors

The directors who served during the year to 31 March 2018 and subsequently are:-

Lorna Jack, MA, CA	Chairman	Appointed as Chairman 03 October 2017
Michael Cantlay, OBE, BA, MBA, DUniv	Chairman	Resigned 02 October 2017
Inglis Lyon, BSc (Hons) LLB	Managing Director	
Gillian Bruton, BAcc, CA	Finance Director	
James McLaughlin, Chartered MCIPD, MBA	Director	
David Savile	Director	
Timothy Whittome, BSc (Hons), AMIMechE, MRIN	Director	

Directors' qualifying third party indemnity provisions

The directors have the benefit of the indemnity provisions contained in the company's Articles of Association. This provision, which is a qualifying third party indemnity provision as defined by the Companies Act 2006, was in force throughout the financial year and is currently in force. The parent company also purchased and maintained throughout the financial year liability insurance for its directors.

Auditor

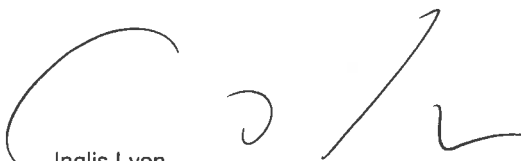
Scott Moncrieff will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Directors' statement as to disclosure of information to the auditor

The directors who were members of the board at the time of approving the Directors' report are listed 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
04 September 2018

HIGHLANDS AND ISLANDS AIRPORTS LIMITED GOVERNANCE STATEMENT

Scope of responsibility

As accountable officer I have responsibility for maintaining a system of internal control that supports the achievement of the group's aims, objectives and policies agreed between the board and the Scottish Ministers, whilst safeguarding the public funds and assets for which I am responsible.

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

Purpose of the system of internal control

The system of internal control is designed to mitigate rather than eliminate the risk of failure to achieve the group's policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is an active process designed to identify the principal risks to the achievement of the 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 2018 and up to the date of approval of the annual report and accounts.

Risk and control framework

All bodies subject to the requirements of the SPFM must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM. All areas of group risk are managed through the Risk Oversight Group and the senior management team who report to the boards of HIAL, DAL and AMSL (the Group).

Risk management

The managing director and through him the Board is responsible for the overall risk management of the business however responsibility for specific risk management areas have been delegated to individual directors and managers.

The terms of reference for the Risk Oversight Group are as follows: -

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

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.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED GOVERNANCE STATEMENT

Control environment

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

The systems of internal financial control include: -

- An annual budget approved by the Board;
- Regular review by the Board of actual results;
- A regular review of delegated financial authorities;
- A regular review of procurement procedures to ensure best value.

More generally, the organisation is committed to a process of continuous review and improvement; developing systems in response to any relevant reviews and developments in best practice in all areas.

Should the need arise, employees are encouraged to use the procedures within the Group's whistleblowing policy. The policy details the protection that will be given to employees who report malpractice at work.

Review of effectiveness

As accountable officer I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by: -

- My work with the audit committee and through that the findings of both internal and external auditors;
- The senior managers within the group who have responsibility for the development and maintenance of the internal control framework;
- The senior managers within the group who have responsibility for the internal control framework in areas which could be impacted by external agencies;
- Scrutiny of key strategic and operational areas by the board.

The following processes are established:

The Board

The Board is largely responsible for determining the business strategy of the group, taking into account the Scottish Ministers' expressed policy to encourage economic and social development in the Highlands and Islands.

The Board is composed of six members. The non-executive chairman, the executive managing director, the executive finance director and three non-executive directors, each of whose appointments are approved by Scottish Ministers. The Board meets on a six weekly cycle and has adopted a policy of requiring all significant matters to be referred to the Board for decision unless these are specifically within delegated limits given to the managing director.

Monitoring systems used by the Board

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

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

Board committees

During the year the audit committee was composed of three non-executive directors: Ms L Jack, Mr T Whittome and Mr J McLaughlin. The committee was chaired by Ms L Jack until 02 October 2017 and thereafter by J McLaughlin and works to terms of reference agreed by the board and meets on a regular basis. The managing director and the finance director are invited to attend meetings. The committee receives regular reports from both the internal and external auditors and makes periodic reports concerning internal control to the Board. The committee reviews and comments to the Board as to corporate governance compliance and, through internal audit, the adequacy of risk management arrangements.

Internal audit

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

**HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GOVERNANCE STATEMENT**

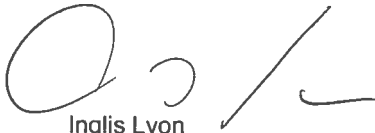
Operational control

Each of the airports under the group's control is subject to regular operational inspections by the Civil Aviation Authority, as regulator, and by a series of internal audits to augment the regulatory framework.

The assessor

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

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



Inglis Lyon
Managing Director
04 September 2018

HIGHLANDS AND ISLANDS AIRPORTS LIMITED STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union 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. In preparing these financial statements the directors are required to:-

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
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 2018, 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:

- 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 2018 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.

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.

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

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 22, 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.

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.

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

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)
for and on behalf of Scott Moncrieff, Statutory Auditor
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL
04 September 2018

**HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP INCOME STATEMENT**

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £000	2017 £000
Revenue	3	24,895	22,018
Cost of sales		<u>(42,723)</u>	<u>(38,876)</u>
Gross loss		<u>(17,828)</u>	<u>(16,858)</u>
Administrative expenses		(4,745)	(9,633)
Other income	4	20,609	26,522
Other losses	6	<u>(241)</u>	<u>(39)</u>
Operating loss	5	<u>(2,205)</u>	<u>(8)</u>
Share of operating loss in joint venture	12	(33)	(116)
Finance revenue	8	115	139
Other finance cost – pensions	22	<u>(941)</u>	<u>(1,000)</u>
Loss from continuing operations before tax		<u>(3,064)</u>	<u>(985)</u>
Tax charge	9	<u>(23)</u>	-
Loss from continuing operations		<u><u>(3,087)</u></u>	<u><u>(985)</u></u>

All activities relate to continuing operations.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £000	2017 £000
Loss for the year		(3,087)	(985)
Other comprehensive income:			
Actuarial gains/(losses)	22	6,434	(3,145)
Tax on items relating to components of other comprehensive income		-	-
Other comprehensive income/(expense) for the year, net of tax		<u>6,434</u>	<u>(3,145)</u>
Total comprehensive income/(expense) for the year		<u>3,347</u>	<u>(4,130)</u>

COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £000	2017 £000
(Loss)/profit for the year		(2,663)	136
Other comprehensive income:			
Actuarial gains/(losses)	22	4,180	(1,100)
Tax on items relating to components of other comprehensive income		-	-
Other comprehensive income/(expense) for the year, net of tax		<u>4,180</u>	<u>(1,100)</u>
Total comprehensive income/(expense) for the year		<u>1,517</u>	<u>(964)</u>

**HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED 31 MARCH 2018

	Equity share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 April 2016	50	(23,830)	(23,780)
(Loss) in year attributable to equity holders	-	(985)	(985)
Other comprehensive expense	-	(3,145)	(3,145)
At 31 March 2017	<u>50</u>	<u>(27,960)</u>	<u>(27,910)</u>

	Equity share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 April 2017	50	(27,960)	(27,910)
(Loss) in year attributable to equity holders	-	(3,087)	(3,087)
Other comprehensive income	-	6,434	6,434
At 31 March 2018	<u>50</u>	<u>(24,613)</u>	<u>(24,563)</u>

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018**

	Equity share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 April 2016	50	(21,154)	(21,104)
Profit in year attributable to equity holders	-	136	136
Other comprehensive (expense)	-	(1,100)	(1,100)
At 31 March 2017	<u>50</u>	<u>(22,118)</u>	<u>(22,068)</u>

	Equity share capital	Retained Earnings	Total Equity
	£000	£000	£000
At 1 April 2017	50	(22,118)	(22,068)
(Loss) in year attributable to equity holders	-	(2,663)	(2,663)
Other comprehensive income	-	4,180	4,180
At 31 March 2018	<u>50</u>	<u>(20,601)</u>	<u>(20,551)</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP BALANCE SHEET
AS AT 31 MARCH 2018

	Notes	2018 £000	2017 £000
ASSETS			
Non-current assets			
Property, plant and equipment	10	115,600	113,677
Investment properties	11	830	1,099
Investments accounted for using the equity method	12	97	130
Intangible assets	13	55	55
Long term loan to joint venture	14	1,730	1,608
		<u>118,312</u>	<u>116,569</u>
Current assets			
Trade and other receivables	15	4,515	3,866
Inventories	16	43	44
Cash and cash equivalents	17	2,260	3,145
		<u>6,818</u>	<u>7,055</u>
Total assets		<u>125,130</u>	<u>123,624</u>
LIABILITIES			
Current liabilities			
Trade and other payables	18	(8,390)	(8,587)
		<u>(8,390)</u>	<u>(8,587)</u>
Non-current liabilities			
Loan	19	(1,366)	(519)
Deferred tax liability	9(d)	-	-
Defined benefit pension scheme deficit	22	(24,532)	(27,763)
Deferred subsidies	20	(115,405)	(114,665)
		<u>(141,303)</u>	<u>(142,947)</u>
Total liabilities		<u>(149,693)</u>	<u>(151,534)</u>
NET LIABILITIES		<u>(24,563)</u>	<u>(27,910)</u>
EQUITY			
Ordinary shares	23	50	50
Retained earnings		(24,613)	(27,960)
		<u>(24,563)</u>	<u>(27,910)</u>

The financial statements were authorised for issue by the Board of Directors on 4 September 2018 and signed on its behalf by:


Lorna Jack, MA CA
Chairman


Inglis Lyon
Managing Director
04 September 2018

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
COMPANY BALANCE SHEET
AS AT 31 MARCH 2018

	Notes	2018 £000	2017 £000
ASSETS			
Non-current assets			
Property, plant and equipment	10	105,553	103,490
Investment properties	11	830	1,099
Investments	12	1,998	1,998
Long term loan to joint venture	14	1,730	1,608
		<u>110,111</u>	<u>108,195</u>
Current assets			
Trade and other receivables	15	4,773	3,724
Inventories	16	4	6
Cash and cash equivalents	17	2,056	3,089
		<u>6,833</u>	<u>6,819</u>
Total assets		<u>116,944</u>	<u>115,014</u>
LIABILITIES			
Current liabilities			
Trade and other payables	18	(7,858)	(7,915)
		<u>(7,858)</u>	<u>(7,915)</u>
Non-current liabilities			
Loan	19	(1,366)	(519)
Deferred tax liability	9(d)	-	-
Defined benefit pension scheme deficit	22	(23,016)	(24,275)
Deferred subsidies	20	(105,255)	(104,373)
		<u>(129,637)</u>	<u>(129,167)</u>
Total liabilities		<u>(137,495)</u>	<u>(137,082)</u>
NET LIABILITIES		<u>(20,551)</u>	<u>(22,068)</u>
EQUITY			
Ordinary shares	23	50	50
Retained Earnings		(20,601)	(22,118)
		<u>(20,551)</u>	<u>(22,068)</u>

The financial statements were authorised for issue by the Board of Directors on 4 September 2018 and signed on its behalf by:



Lorna Jack, MA, CA
Chairman



Inglis Lyon
Managing Director
04 September 2018

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP CASH FLOW STATEMENT
AS AT 31 MARCH 2018

	Notes	2018 £000	2017 £000
<i>Cash flows from operating activities</i>			
Cash (used in)/generated by operations	24	(642)	16
Purchase of property, plant and equipment		(9,903)	(16,397)
Proceeds from sale of property, plant and equipment		71	99
Receipt of capital subsidy		8,635	16,287
Tax paid		-	-
<i>Net cash flow from operating activities</i>		<u>(1,839)</u>	<u>5</u>
<i>Cash flows from investing activities</i>			
Increase in loan to joint venture		(25)	(25)
<i>Net cash flow from investing activities</i>		<u>(25)</u>	<u>(25)</u>
<i>Cash flows from financing activities</i>			
Loan received		1,068	686
Loan repaid		(82)	-
Interest paid		-	-
Interest received		(7)	8
<i>Net cash flow from financing activities</i>		<u>979</u>	<u>694</u>
<i>(Decrease)/Increase in cash and cash equivalents</i>		<u>(885)</u>	<u>674</u>
<i>Cash and cash equivalents at the beginning of the year</i>		<u>3,145</u>	<u>2,471</u>
<i>Cash and cash equivalents at the end of the year</i>		<u>2,260</u>	<u>3,145</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

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 2018 were authorised for issue by the board of directors on 4 September 2018 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 2018.

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

2. Accounting policies

2.1a. Basis of preparation

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

2.1b. Going concern

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

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

As a result of the IAS 19 pension liability the Group has a net scheme deficit of £24.532m and the Company has a net deficit of £23.016m at 31 March 2018. This deficit results from bringing a long term pension liability onto the balance sheet and does not reflect the Group or Company's ability to continue as a going concern or to meet its liabilities as they fall due. Accordingly the Group and the Company continue to adopt the going concern basis in preparing their annual financial statements.

2.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of Highlands and Islands Airports Limited and its subsidiaries as at 31 March 2018.

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 IAS 18 Revenue and comprises amounts received and receivable in respect of airport services provided in the UK. Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (continued)

(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.

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.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (continued)

(e) Property, plant and equipment

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

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

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

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

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

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

(f) Leasing

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

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

Group as a lessee

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

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

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

Group as a lessor

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

(g) Business combinations

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (continued)

(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.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (continued)

(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.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (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 assets

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

Assets carried at amortised cost

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

2.4. Judgements and key sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets, 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 2018. For the investment properties the valuer used a valuation technique based on an adapted discounted cash flow model as there is a lack of comparable market data because of the nature of the properties.

The determined fair value of the investment properties is most sensitive to the estimated yield. The key assumptions used to determine the fair value of the investment properties are further explained in note 11.

Defined benefit pension schemes

The cost of the defined benefit pension schemes is determined using actuarial valuations. The actuarial valuations involved making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in note 22.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

2.5. Changes in accounting policy and disclosures

New and amended standards and interpretations

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

The following standards, amendments and interpretations became effective during the year and have been adopted in these financial statements. Their adoption has not had any impact on the amounts reported in these financial statements:

IAS 7	Statement of Cash Flows
IFRS 7	Financial Instruments: Disclosures
IFRS 12	Disclosure of Interests in Other Entities

2.6. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IAS 1	Presentation of Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 40	Investment Properties
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRIC 22	Foreign Currency Transactions and Advance Consideration

The above standards and interpretations are expected to be adopted in accordance with their effective dates and have not been adopted in these financial statements. All of the above standards and interpretations are effective for periods commencing on or after 1 January 2018 or later. The directors do not anticipate that adoption of these standards and interpretations other than as stated below will have a material impact on the financial statements in the period of initial application.

IFRS 16 Leases

The Standard makes substantial changes to the recognition and measurement of leases by lessees. On adoption of the standard, lessees, with certain exceptions for short term or low value leases, will be required to recognise all leased assets on their balance sheet as 'right-of-use assets' with a corresponding lease liability. The requirements for lessors are substantially unchanged.

On application of the standard the disclosures are likely to increase for both lessors and lessees. The standard includes principles on disclosing the nature, amount, timing and variability of lease payments, and cash flows, by providing qualitative and quantitative information.

The Company has evaluated the expected impact of IFRS 16 on its financial statements. Based on the operating leases the Company currently have as a lessee (see note 25) the impact of IFRS 16 it is not expected to be significant. The asset and corresponding liability that will be recognised under IFRS 16 is expected to be less than £200k as at 31 March 2018.

The standard is effective for periods beginning on or after 1 January 2019 .

3. Revenue

	2018	2017
	£000	£000
Revenue recognised in the Income statement is analysed as follows:		
Revenue from airport charges	19,644	17,161
Concession revenues	2,548	2,303
Rental income	2,703	2,554
Total revenue	<u>24,895</u>	<u>22,018</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

4. Other income

	2018	2017
	£000	£000
Government grants, other grants & services rendered	<u>20,609</u>	<u>26,522</u>
	20,609	26,522

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 2018 and 2017 was as follows:

		2018	2017
		£000	£000
Revenue			
Scottish Government	Operating subsidy	20,440	20,164
Scottish Government	Air Discount Scheme	125	129
Scottish Government	Other Grants	-	600
Miscellaneous	Miscellaneous	<u>44</u>	<u>5,629</u>
		20,609	26,522
Capital			
Scottish Government	Operating subsidy and grants	8,635	16,287
and other bodies		<u>8,635</u>	<u>16,287</u>
		29,244	42,809

5. Group operating loss

This is stated after charging/(crediting):

	2018	2017
	£000	£000
Decrease/(increase) in fair value of investment properties	269	138
Depreciation of property, plant and equipment	7,938	8,338
Amortisation of intangible assets	-	12
Deferred subsidies release	(7,895)	(8,411)
Operating lease payments	51	43
Auditor's remuneration – audit services	40	33

6. Other (losses) & gains

	2018	2017
	£000	£000
Gain on disposals of property, plant and equipment	28	99
(Decrease)/increase in fair value of investment properties	<u>(269)</u>	<u>(138)</u>
	(241)	(39)

7. Employee benefit expense

	2018	2017
	£000	£000
Wages and salaries	21,286	20,329
Social security costs	2,310	2,140
Pension costs	5,508	4,151
Other staff costs	<u>887</u>	<u>620</u>
	29,991	27,240

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

7. Employee benefit expense (continued)

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

	2018 No.	2017 No.
Administration	56	50
Air traffic services	82	85
Airport fire service	193	194
Apron operations	5	8
Engineering	21	21
Management	34	38
Security	222	221
	<u>613</u>	<u>617</u>

Directors' remuneration

	2018 £000	2017 £000
Emoluments	240	229
Pension contributions	23	23

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

	2018 No.	2017 No.
£5,001 to £10,000	1	5
£10,001 to £20,000	4	1
£20,001 to £55,000	1	1
£145,001 to £150,000	-	1
£150,001 to £155,000	1	-

The emoluments of former chairman M Cantlay who resigned 02 October, 2017, were £11,280 (2017: £16,759). The emoluments of the Interim Chairman L Jack (from October 2017) were £11,159. The emoluments of the highest paid director, Inglis Lyon, were £127,920 (2017: £125,497) excluding pension contributions of £23,208 (2017: £22,998).

Caledonian Maritime Assets Ltd charged the group £54,600 (2017: £50,533) for the services of a Director (note 26).

The Law Society of Scotland charged the group £15,526 (2017: £8,734) for the services of L Jack, formally a board member, appointed interim chairman on 03 October 2017.

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

8. Finance revenue

	2018 £000	2017 £000
Bank interest receivable	(7)	8
Other finance income	122	131
	<u>115</u>	<u>139</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

9. Taxation

(a) Tax charged in the Income statement

	2018 £000	2017 £000
Current income tax:		
Current income tax	23	-
Amounts overprovided in previous years	-	-
Total current income tax	<u>23</u>	<u>-</u>
Deferred tax:		
Origination and reversal of temporary differences	-	-
Effect of decreased tax rate on closing liability	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Tax expense in the Income statement		
Income tax on continuing operations	<u>23</u>	<u>-</u>
The tax expense in the income statement is disclosed as follows:	<u>23</u>	<u>-</u>

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

	2018 £000	2017 £000
Tax on defined benefit pension scheme	-	-
Total current income tax	<u>-</u>	<u>-</u>
Deferred tax:		
Deferred tax on defined benefit pension scheme	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Tax expense in statement of other comprehensive income	<u>-</u>	<u>-</u>

(c) Reconciliation of the total tax charge

The tax charge in the Income statement for the year is lower than the standard rate of corporation tax in the United Kingdom of 19% (2017: 20%). The differences are reconciled below:

	2018 £000	2017 £000
Accounting (loss) before income tax	<u>(3,087)</u>	<u>(985)</u>
Accounting (loss) multiplied by the UK standard rate of tax of 19% (2017: 20%)	(587)	(197)
Expenses not deductible for tax purposes	6	21
Tax losses carried forward	-	157
Tax losses utilised	(194)	(330)
Government grants exempt from tax	(1,252)	(1,774)
Pension provisions not tax deductible	298	167
Adjustment in respect of IFRS	-	201
Interest on redeemable shares	-	(23)
Adjustment relating to sale of assets	46	(14)
Adjustment relating to tax on UK GAAP	-	-
Net depreciation in excess of capital allowances	1,699	1,769
Share of JV not tax deductible	7	23
Deferred tax movement per note 9 (d)	-	-
Total tax charge reported in the Income statement	<u>23</u>	<u>-</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

9. Taxation (continued)

(d) Deferred tax

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

	Balance sheet		Income statement	
	2018	2017	2018	2017
	£000	£000	£000	£000
Deferred tax liability				
Accelerated capital allowances	-		-	4,436
Revaluations of investment properties	203	190	(13)	35
	203	190	(13)	4,471
Deferred tax asset				
Accelerated capital allowances	4,789	4,602	187	4,602
Pensions	4,506	4,720	(214)	165
Tax losses carried forward	1,821	1,902	(81)	(563)
Deferred revenue	(5,125)	(4,965)	(160)	(64)
Deferred tax not recognised	(5,788)	(6,069)	281	(8,611)
	203	190	13	(4,471)

Disclosed on the Group and Company balance sheet and income statement

Deferred tax (liability)	-	-	-	-
--------------------------	---	---	---	---

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

10. Property, plant and equipment

Group	Land and	Plant and	Construction	Total
	buildings freehold			
	£000	£000	£000	£000
Cost:				
At 1 April 2016	47,640	150,239	5,494	203,373
Additions	26	477	15,894	16,397
Disposals	(66)	(2,780)	-	(2,846)
Transfers	1,418	10,688	(12,106)	-
At 31 March 2017	49,018	158,624	9,282	216,924
Depreciation and impairment:				
At 1 April 2016	(30,364)	(67,346)	-	(97,710)
Provided during the year	(1,494)	(6,844)	-	(8,338)
Disposals	62	2,739	-	2,801
At 31 March 2017	(31,796)	(71,451)	-	(103,247)
Net book value:				
At 31 March 2017	17,222	87,173	9,282	113,677
At 31 March 2016	17,276	82,893	5,494	105,663

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
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 2017	49,018	158,624	9,282	216,924
Additions	488	447	8,968	9,903
Disposals	(20)	(840)	-	(860)
Transfers	4,334	5,392	(9,726)	-
At 31 March 2018	53,820	163,623	8,524	225,967
Depreciation and impairment:				
At 1 April 2017	(31,796)	(71,451)	-	(103,247)
Provided during the year	(1,326)	(6,612)	-	(7,938)
Disposals	17	801	-	818
At 31 March 2018	(33,105)	(77,262)	-	(110,367)
Net book value:				
At 31 March 2018	20,715	86,361	8,524	115,600
At 31 March 2017	17,222	87,173	9,282	113,677
Company				
	Land and buildings freehold £000	Plant and equipment £000	Construction in progress £000	Total £000
Cost:				
At 1 April 2016	43,899	130,130	5,333	179,362
Additions	26	455	15,851	16,332
Disposals	(66)	(2,780)	-	(2,846)
Transfers	1,403	10,544	(11,947)	-
At 31 March 2017	45,262	138,349	9,237	192,848
Depreciation and impairment:				
At 1 April 2016	(27,495)	(57,139)	-	(84,634)
Provided during the year	(1,356)	(6,169)	-	(7,525)
Disposals	62	2,739	-	2,801
At 31 March 2017	(28,789)	(60,569)	-	(89,358)
Net book value:				
At 31 March 2017	16,473	77,780	9,237	103,490
At 31 March 2016	16,404	72,991	5,333	94,728
Company				
	Land and buildings freehold £000	Plant and equipment £000	Construction in progress £000	Total £000
Cost:				
At 1 April 2017	45,262	138,349	9,237	192,848
Additions	472	383	8,840	9,695
Disposals	(21)	(808)	-	(829)
Transfers	4,335	5,273	(9,608)	-
At 31 March 2018	50,048	143,197	8,469	201,714
Depreciation and impairment:				
At 1 April 2017	(28,789)	(60,569)	-	(89,358)
Provided during the year	(1,357)	(6,231)	-	(7,588)
Disposals	17	768	-	785
At 31 March 2018	(30,129)	(66,032)	-	(96,161)
Net book value:				
At 31 March 2018	19,919	77,165	8,469	105,553
At 31 March 2017	16,473	77,780	9,237	103,490

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

11. Investment property

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

	Group	Company	Group	Company
	2018	2018	2017	2017
	£000	£000	£000	£000
Valuation at 1 April	1,099	1,099	1,237	1,127
Additions	-	-	-	-
Disposals	-	-	-	-
Fair value adjustment	(269)	(269)	(138)	(28)
Valuation as at 31 March	<u>830</u>	<u>830</u>	<u>1,099</u>	<u>1,099</u>

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 2018, 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:

	2018	2017
Yields (%)	6% - 27%	6% - 27%
Inflation rate (%)	n/a	n/a
Long term vacancy rate (%)	n/a	n/a
Long term growth in real rental rates (%)	n/a	n/a

12. Investments

Group

(a) Investment in joint ventures

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

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:

	2018	2017
	£000	£000
Share of the joint venture's balance sheet:		
Non-current assets	97	130
Current assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Share of other reserves	-	-
Share of net assets	<u>97</u>	<u>130</u>
	2018	2017
	£000	£000
Share of the joint venture's results:		
Revenue	207	20
Net operating expenses	(243)	(145)
Loss before taxation	(36)	(125)
Tax expense	3	9
Loss after taxation	<u>(33)</u>	<u>(116)</u>

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

12. Investments (continued)

(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 2017 and 2018 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

On 22 March 2018 the Company acquired 100% of the share capital of a newly incorporated company, Highland Airways Limited, in exchange for an initial consideration of £1. As the company was acquired when it was incorporated, there were no assets or liabilities to be disclosed prior to acquisition.

Company	Subsidiary undertakings £000	Joint ventures £000	Total £000
Cost:			
At 1 April 2016	407	1,988	2,395
Acquisitions	-	-	-
Additions	-	-	-
Disposals	(397)	-	(397)
At 31 March 2017	10	1,988	1,998
Amortisation and impairment:			
At 1 April 2016	(397)	-	(397)
Amortisation during the year	-	-	-
Impairment charges	-	-	-
Disposals	397	-	397
At 31 March 2017	-	-	-
Net book value:			
At 31 March 2017	10	1,988	1,998
At 31 March 2016	10	1,988	1,998
	Subsidiary undertakings £000	Joint ventures £000	Total £000
Cost:			
At 1 April 2017	10	1,988	1,998
Acquisitions	-	-	-
Additions	-	-	-
Disposals	-	-	-
At 31 March 2018	10	1,988	1,998
Amortisation and impairment:			
At 1 April 2017	-	-	-
Amortisation during the year	-	-	-
Impairment charges	-	-	-
Disposals	-	-	-
At 31 March 2018	-	-	-
Net book value:			
At 31 March 2018	10	1,988	1,998
At 31 March 2017	10	1,988	1,998

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

13. Intangible fixed assets

Group

	Total £000
Cost:	
At 1 April 2016	25,178
Acquisitions	-
Additions	-
Disposals	-
At 31 March 2017	<u>25,178</u>
Amortisation and impairment:	
At 1 April 2016	(25,111)
Amortisation during the year	(12)
Impairment charges	-
At 31 March 2017	<u>(25,123)</u>
Net book value:	
At 31 March 2017	<u>55</u>
At 31 March 2016	<u>67</u>
Cost:	
At 1 April 2017	25,178
Acquisitions	-
Additions	-
Disposals	(24,638)
At 31 March 2018	<u>540</u>
Amortisation and impairment:	
At 1 April 2017	(25,123)
Amortisation during the year	-
Impairment charges	-
Disposals	24,638
At 31 March 2018	<u>(485)</u>
Net book value:	
At 31 March 2018	<u>55</u>
At 31 March 2017	<u>55</u>

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 53 years at 31 March 2018.

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

Intangibles	-	10 years in relation to the concession income agreement and 7 to 60 years in relation to the lease contracts
-------------	---	--------------------------------------------------------------------------------------------------------------

14. Loans to joint ventures

Group and company	2018 £000	2017 £000
Loans to joint venture	<u>1,730</u>	<u>1,608</u>
Total non-current financial assets	<u>1,730</u>	<u>1,608</u>

The loan above relates to two amounts loaned to IABP (the Group's joint venture investment) by Highlands and Islands Airports Limited. The first amount relates to funding provided to IABP for operational expenditure until IABP starts earning its revenue, which was stipulated under the shareholders' agreement. The second part relates to redeemable shares issued by the joint venture against a piece of land sold by HIAL to IABP. The redeemable shares are to be redeemed at IABPs discretion once they have the financial ability to do so. The funding will be repaid when the joint venture begins to earn revenue.

The loans are classified as loans and receivables, are interest free and are neither past due nor impaired.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

15. Trade and other receivables

Group

	2018 £000	2017 £000
Trade receivables	3,556	2,704
Less: provision for impairment of receivables	<u>(615)</u>	<u>(97)</u>
Trade receivables net of impairment	2,941	2,607
Receivables from joint ventures	371	346
Prepayments and other accrued income	455	505
Other receivables	<u>748</u>	<u>408</u>
	<u>4,515</u>	<u>3,866</u>

Out of the carrying amount of trade receivables of £3,556,000, £2,371,000 relates to 4 major customers.

Trade receivables are non-interest bearing and are generally on 30 days credit terms and are shown net of a provision for impairment. As at 31 March 2018, trade receivables at nominal value of £615,000 were determined to be impaired because of poor payment history or insolvency of the debtor and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2018 £000	2017 £000
At 1 April	(97)	(57)
Impairment losses recognised on trade receivables	(620)	(155)
Amounts written off as uncollectable	-	5
Receivables collected previously impaired	<u>102</u>	<u>110</u>
At 31 March	<u>(615)</u>	<u>(97)</u>
	2018 £000	2017 £000
Neither past due nor impaired	1,775	1,779
Past due but not impaired:		
< 30 days	682	702
30 – 60 days	265	71
60 – 90 days	64	10
90 – 120 days	31	5
> 120 days	<u>124</u>	<u>40</u>
	<u>2,941</u>	<u>2,607</u>

As of 31 March 2018, trade receivables of £3,556,000 were considered for impairment and of which an amount of £615,000 was provided with the remaining amount expected to be fully recovered. The individually impaired trade receivables mainly relate to customers who are in difficult economic situations.

	2018 £000	2017 £000
Ageing of impaired trade receivables:		
Up to 3 months	529	39
Between 3 and 6 months	8	3
More than 6 months	<u>78</u>	<u>55</u>
At 31 March	<u>615</u>	<u>97</u>

Company

	2018 £000	2017 £000
Trade receivables	3,453	2,091
Less: provision for impairment of receivables	<u>(610)</u>	<u>(57)</u>
Trade receivables net of impairment	2,843	2,034
Receivables from joint ventures	371	346
Prepayments and other accrued income	829	831
Other receivables	<u>730</u>	<u>513</u>
	<u>4,773</u>	<u>3,724</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

15. Trade and other receivables (continued)

Out of the carrying amount of trade receivables of £3,453,000, £2,233,000 relates to 4 major customers.

Trade receivables are non-interest bearing and are generally on 30 days credit terms and are shown net of a provision for impairment. As at 31 March 2018, trade receivables at nominal value of £610,000 were determined to be impaired because of poor payment history or insolvency of the debtor and are fully provided for. Movements in the provision for impairment of receivables were as follows:

	2018 £000	2017 £000
At 1 April	(57)	(55)
Impairment losses recognised on trade receivables	(597)	(115)
Amounts written off as uncollectable	-	4
Receivables collected previously impaired	44	109
At 31 March	<u>(610)</u>	<u>(57)</u>
	2018 £000	2017 £000
Neither past due nor impaired	1,724	1,291
Past due but not impaired:		
< 30 days	678	628
30 – 60 days	260	62
60 – 90 days	52	10
90 – 120 days	30	4
> 120 days	99	39
	<u>2,843</u>	<u>2,034</u>

As of 31 March 2018, trade receivables of £3,453,000 were considered for impairment and of which an amount of £610,000 was provided with the remaining amount expected to be fully recovered. The individually impaired trade receivables mainly relate to customers who are in difficult economic situations.

	2018 £000	2017 £000
Ageing of impaired trade receivables:		
Up to 3 months	529	-
Between 3 and 6 months	7	4
More than 6 months	74	53
At 31 March	<u>610</u>	<u>57</u>

16. Inventories

	Group 2018 £000	Company 2018 £000	Group 2017 £000	Company 2017 £000
Aviation fuel	43	4	44	6
	<u>43</u>	<u>4</u>	<u>44</u>	<u>6</u>

17. Cash and cash equivalents

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

Group

	2018 £000	2017 £000
Cash at bank	2,260	3,145
Short term deposits	-	-
	<u>2,260</u>	<u>3,145</u>

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

17. Cash and cash equivalents (continued)

Company	2018	2017
	£000	£000
Cash at bank	2,056	3,089
Short term deposits	-	-
	<u>2,056</u>	<u>3,089</u>

18. Trade and other payables

Group	2018	2017
	£000	£000
Loans (note 19)	305	167
Trade payables	1,443	1,963
Other creditors and accruals	6,642	6,457
	<u>8,390</u>	<u>8,587</u>
Company	2018	2017
	£000	£000
Loans (note 19)	278	167
Trade payables	1,365	1,933
Amounts owed to other Group companies	383	326
Other creditors and accruals	5,832	5,489
	<u>7,858</u>	<u>7,915</u>

19. Loans

Group	2018	2017
	£000	£000
Unsecured loans wholly repayable within five years, repayable in half-yearly instalments	1671	686
Less repayable within twelve months (note 18)	(305)	(167)
	<u>1,366</u>	<u>519</u>
Instalments on the loans included above are repayable as follows:		
between one and two years	432	170
between two and five years	934	349
after five years	-	-
	<u>1,366</u>	<u>519</u>
Company	2018	2017
	£000	£000
Unsecured loans wholly repayable within five years, repayable in half-yearly instalments	1,644	686
Less repayable within twelve months (note 18)	(278)	167
	<u>1,366</u>	<u>519</u>
Instalments on the loans included above are repayable as follows:		
between one and two years	432	170
between two and five years	934	349
after five years	-	-
	<u>1,366</u>	<u>519</u>

At 31 March 2018 the group and company had 2 loans outstanding (2017: 1). The loans are repayable to the Scottish Ministers at an interest rate between 1.73% and 1.78%. The loans are repayable over 4 years and by half yearly installments.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Deferred subsidies

Group	2018	2017
	£000	£000
Balance at 1 April	114,665	106,835
Subsidies receivable	8,635	16,287
Release to Income Statement	(7,895)	(8,411)
Release against asset disposals	-	(46)
Balance at 31 March	<u>115,405</u>	<u>114,665</u>
Company	2018	2017
	£000	£000
Balance at 1 April	104,373	95,710
Subsidies receivable	8,455	16,221
Release to Income Statement	(7,573)	(7,512)
Release against asset disposals	-	(46)
Balance at 31 March	<u>105,255</u>	<u>104,373</u>

21. Financial instruments

Credit risk

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

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

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 2018 and 31 March 2017 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	£000	£000	£000	£000	£000	£000
Trade and other payables						
At 31 March 2018	-	8,085	-	-	-	8,085
At 31 March 2017	-	8,420	-	-	-	8,420
Borrowings						
At 31 March 2018	-	-	305	1,366	-	1,671
At 31 March 2017	-	-	167	519	-	686

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	
	2018	2017	2018	2017
	£000	£000	£000	£000
Financial assets				
Loans and receivables	1,730	1,608	1,730	1,608
Trade and other receivables	4,144	3,520	4,144	3,520
Loans receivable	371	346	371	346
Financial liabilities				
Trade and other payables	8,085	8,420	8,085	8,420
Borrowings	1,671	686	1,671	686

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.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

21. Financial instruments (continued)

The carrying value of short term receivables and payables are assumed to approximate their fair value where the effects of discounting are not material.

22. Pensions

The Group 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 2018 were 515 (2017: 498) and 63 (2017: 57). Both schemes are operated and located in the United Kingdom and require contributions to be made to separately administered funds.

The values of the scheme obligations have been determined by a qualified actuary based on the actuarial valuation as at 31 December 2016 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.

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

At 31 March 2017	HPS	TSF	Total
	£000	£000	£000
Scheme assets at fair value			
Equities	59,428	4,762	64,190
Gilts	13,074	438	13,512
Other bonds	34,469	652	35,121
Property	10,697	652	11,349
Cash	1,189	109	1,298
Fair value of scheme assets	118,857	6,613	125,470
Present value of scheme liabilities	(143,132)	(10,101)	(153,233)
Defined benefit pension scheme deficit	(24,275)	(3,488)	(27,763)

At 31 March 2018	HPS	TSF	Total
	£000	£000	£000
Scheme assets at fair value			
Equities	37,077	6,040	43,117
Gilts	12,359	424	12,783
Other bonds	35,841	987	36,828
Property	11,123	986	12,109
Diversified growth	25,954	-	25,954
Cash	1,236	242	1,478
Fair value of scheme assets	123,590	8,679	132,269
Present value of scheme liabilities	(146,606)	(10,195)	(156,801)
Defined benefit pension scheme deficit	(23,016)	(1,516)	(24,532)

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 2017

	HPS	TSF	Total
	£000	£000	£000
Recognised in Income Statement			
Current service cost	3,410	276	3,686
Past service cost	-	-	-
Recognised in arriving at operating loss	3,410	276	3,686
Administration cost	172	2	174
Interest cost on scheme assets	(3,930)	(206)	(4,136)
Interest cost on obligations	4,708	254	4,962
Other finance cost	950	50	1,000

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

22. Pensions (continued)

	HPS	TSF	Total
	£000	£000	£000
Taken to the Statement of Comprehensive Income			
Return on plan assets in excess of interest	11,991	1,001	12,992
Change in demographic assumptions	7,389	-	7,389
Experience gain on liabilities	10,325	-	10,325
Change in financial assumptions	(30,805)	(3,046)	(33,851)
Actuarial losses recognised in the Statement of Comprehensive Income	<u>(1,100)</u>	<u>(2,045)</u>	<u>(3,145)</u>

Year ended 31 March 2018

	HPS	TSF	Total
	£000	£000	£000
Recognised in Income Statement			
Current service cost	4,781	402	5,183
Past service cost	-	-	-
Recognised in arriving at operating loss	<u>4,781</u>	<u>402</u>	<u>5,183</u>
Administration cost	201	2	203
Interest cost on scheme assets	(3,335)	(189)	(3,524)
Interest cost on obligations	3,979	283	4,262
Other finance cost	<u>845</u>	<u>96</u>	<u>941</u>

	HPS	TSF	Total
	£000	£000	£000
Taken to the Statement of Comprehensive Income			
Return on plan assets in excess of interest	924	405	1,329
Change in demographic assumptions	3,128	443	3,571
Experience loss on liabilities	(639)	(325)	(964)
Other actuarial gains on assets	-	1,228	1,228
Change in financial assumptions	767	503	1,270
Actuarial gains recognised in the Statement of Comprehensive Income	<u>4,180</u>	<u>2,254</u>	<u>6,434</u>

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

	HPS	TSF	Total
	£000	£000	£000
Defined benefit obligation at 1 April 2016	122,657	6,497	129,154
Current service cost	3,410	276	3,686
Past service cost	-	-	-
Interest cost	4,708	254	4,962
Benefits paid	(1,507)	(57)	(1,564)
Contributions by scheme participants	773	85	858
Change in demographic assumptions	(7,389)	-	(7,389)
Experience gain on liabilities	(10,325)	-	(10,325)
Change in financial assumptions	30,805	3,046	33,851
Defined benefit obligation at 31 March 2017	<u>143,132</u>	<u>10,101</u>	<u>153,233</u>

	HPS	TSF	Total
	£000	£000	£000
Defined benefit obligation at 1 April 2017	143,132	10,101	153,233
Current service cost	4,781	402	5,183
Past service cost	-	-	-
Interest cost	3,979	283	4,262
Benefits paid	(2,830)	(55)	(2,885)
Contributions by scheme participants	800	85	885
Change in demographic assumptions	(3,128)	(443)	(3,571)
Experience loss on liabilities	639	325	964
Change in financial assumptions	(767)	(503)	(1,270)
Defined benefit obligation at 31 March 2018	<u>146,606</u>	<u>10,195</u>	<u>156,801</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

22. Pensions (continued)

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 2016	101,224	5,154	106,378
Interest on scheme assets	3,930	206	4,136
Contributions by employer	2,618	226	2,844
Contributions by scheme participants	773	85	858
Benefits paid	(1,507)	(57)	(1,564)
Administration costs	(172)	(2)	(174)
Return on plan assets less interest	11,991	1,001	12,992
Fair value of scheme assets at 31 March 2017	118,857	6,613	125,470

	HPS £000	TSF £000	Total £000
Fair value of scheme assets at 1 April 2017	118,857	6,613	125,470
Interest on scheme assets	3,335	189	3,524
Contributions by employer	2,705	216	2,921
Contributions by scheme participants	800	85	885
Benefits paid	(2,830)	(55)	(2,885)
Administration costs	(201)	(2)	(203)
Other actuarial gains	-	1,228	1,228
Return on plan assets less interest	924	405	1,329
Fair value of scheme assets at 31 March 2018	123,590	8,679	132,269

The Group expects to contribute £3,651,000 to its defined benefit pension plans in 2018/19.

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 2018 (%)	2017 (%)	TSF 2018 (%)	2017 (%)
<i>Main assumptions:</i>				
Rate of salary increases	2.10	2.35	3.30	3.60
Rate of increase in pensions in payment*	3.20	3.35	2.30	2.70
Discount rate	2.65	2.80	2.60	2.80
RPI Inflation	3.20	3.35	3.30	3.60

*HPS only - Pensions in payment increase in line with RPI for service accrued prior to October 2012 and CPI for service after October 2012. The assumed rate of increase is 3.20% for RPI and 2.10% 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 2017 CMI projection model with a long term improvement rate of 1.5% per annum and the projection is made based on the individual year of birth of each member.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

22. Pensions (continued)

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 2016 CMI projection model with a long term improvement rate of 1.5% p.a. with a smoothing parameter of 7.5 and the projection is made based on the individual year of birth of each member.

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

Sensitivities

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

Change in assumption

	Salary increased by 0.50% £000	Reduce discount rate by 0.50% £000	Increase inflation by 0.50% £000
Fair value of scheme assets	123,590	123,590	123,590
Present value of defined benefit obligation	(151,994)	(165,912)	(166,055)
Defined benefit pension scheme deficit	<u>(28,404)</u>	<u>(42,322)</u>	<u>(42,465)</u>

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	400	423	424	398
Present value of defined benefit obligation	9,923	10,475	10,538	9,863

The projected pension expense for the year ending 31 March 2019 is as follows:

	HPS £000	TSF £000	Total £000
Current service cost	4,710	411	5,121
Net interest in defined benefit liability	567	36	603
Administration expenses	200	3	203
Total	<u>5,477</u>	<u>450</u>	<u>5,927</u>

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

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
HPS					
Fair value of scheme assets	123,590	118,857	101,224	101,198	87,532
Present value of defined benefit obligation	(146,606)	(143,132)	(122,657)	(126,211)	(98,072)
(Deficit)	<u>(23,016)</u>	<u>(24,275)</u>	<u>(21,433)</u>	<u>(25,013)</u>	<u>(10,540)</u>
Experience adjustment on plan liabilities	(639)	-	-	-	(160)
Experience adjustments on plan assets	924	11,991	(5,356)	7,886	(664)
TSF					
Present value of defined benefit obligation	(10,195)	(10,101)	(6,497)	(6,815)	(4,884)
Fair value of scheme assets	8,679	6,613	5,154	4,950	4,225
(Deficit)	<u>(1,516)</u>	<u>(3,488)</u>	<u>(1,343)</u>	<u>(1,865)</u>	<u>(659)</u>
Experience adjustment on plan liabilities	(325)	-	-	(72)	121
Experience adjustments on plan assets	405	1,001	(244)	355	106

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

23. Share capital

	Group and Company	
	2018	2017
	£000	£000
Authorised shares	50	50
Allotted, called up and fully paid ordinary shares of £1 each	<u>50</u>	<u>50</u>

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

24. Cash generated by/(used in) operations

	2018	2017
	£000	£000
Operating loss	(2,205)	(8)
Amortisation and impairment of intangibles	-	12
Depreciation of property, plant and equipment	7,938	8,338
Decrease/(increase) in inventories	1	(4)
(Increase)/Decrease in trade and other receivables	(624)	326
Decrease in trade and other payables	(358)	(1,118)
Deferred subsidies released	(7,895)	(8,411)
Fair value movement on investment properties	269	138
Difference between pension contributions and charges	2,260	842
Gain on disposal of property, plant and equipment	(28)	(99)
Cash (used in)/generated by operations	<u>(642)</u>	<u>16</u>

25. Obligations under leases and hire purchase contracts

Operating lease agreements where the Group and Company is the lessee

The Group and Company has entered into commercial leases on certain property and items of machinery. These leases have an average duration of between 2 and 10 years. Only property lease agreements contain an option to extend, with such options exercisable six months before the expiry of the lease term.

Future minimum rentals payable under these non-cancellable operating leases are as follows:

	2018	2017
	£000	£000
Not later than one year	51	43
Later than one year and not later than five years	58	82
Later than five years	-	-
	<u>109</u>	<u>125</u>

Operating Lease IAS 17 Disclosure where the Group and company is the lessor

The Company and Group have entered into a commercial lease on two aircrafts. This lease is for four years and is directly connected with the Public Service Obligation services from Glasgow to Campbeltown, Tiree and Barra.

As per IAS17 the following minimum lease payments at the balance sheet under non-cancellable operating lease are as follows:

	2018	2017
	£000	£000
Not later than one year	712	712
Later than one year and not later than five years	414	1,128
Later than five years	-	-
	<u>1,126</u>	<u>1,840</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

26. Related party disclosure

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

Related party		Sales to	Purchases	Amounts	Amounts owed
		related party	from related party	owed by related party	to related party
		£000	£000	£000	£000
Joint ventures:-					
Inverness Airport Business Park Ltd	2018	2	7	371	1
	2017	2	-	346	-
In relation to key management personnel:-					
Caledonian Air Surveys Ltd	2018	3	-	-	-
	2017	3	-	-	-
Director: T Whittome	2018	1	-	-	-
	2017	1	-	-	-
Caledonian Maritime Assets Ltd	2018	-	57	-	34
	2017	-	56	-	-
The Law Society of Scotland	2018	-	14	-	2
	2017	-	9	-	1
Intercompany Balances					
DAL	2018	421	-	442	20
	2017	367	-	476	-
AMSL	2018	171	6,661	-	383
	2017	48	5,636	-	326

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.

Loans to related party

Amounts owed by related party
£000

Joint ventures

Inverness Airport Business Park Ltd.	2018	1,730
	2017	1,608

The loan made to IABP is not interest bearing. Further details are provided in note 14.

Controlling party

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

27. Commitments and contingencies

Capital Commitments

At 31 March 2018, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £3,670,000 for the Group (2017: £2,242,000) and £3,111,000 for the Company (2017: £1,623,000).

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 2018. The risk of default by this joint venture is considered low, and as such the initial fair value of this guarantee has been assessed as £nil.

The Company has offered a guarantee to the HIA Pension Scheme. The form of the guarantee and its value at the date of signing these accounts are still being negotiated. This has been required following the revaluation of the pension scheme and to maintain a strong covenant.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

28. Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2017 and 31 March 2018.

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