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

Annual Report and Accounts to 31 March 2022

About us

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

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

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

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Cover image – Solar ground lighting on runway at Campbeltown airport

Our Values

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

Openness

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

Respect

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

Innovation

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

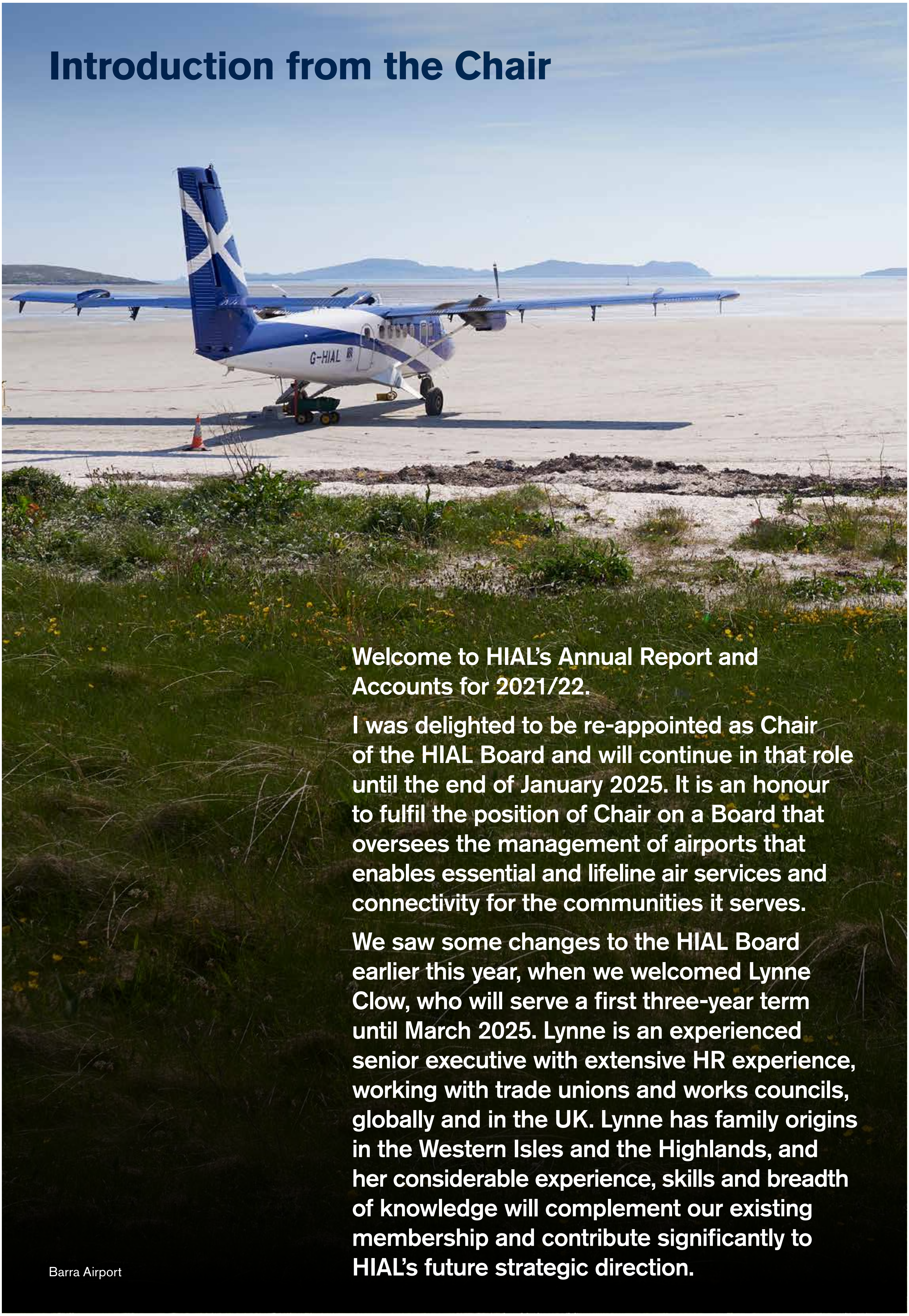
Ownership

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

Excellence

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

Introduction from the Chair



Barra Airport

Welcome to HIAL's Annual Report and Accounts for 2021/22.

I was delighted to be re-appointed as Chair of the HIAL Board and will continue in that role until the end of January 2025. It is an honour to fulfil the position of Chair on a Board that oversees the management of airports that enables essential and lifeline air services and connectivity for the communities it serves.

We saw some changes to the HIAL Board earlier this year, when we welcomed Lynne Clow, who will serve a first three-year term until March 2025. Lynne is an experienced senior executive with extensive HR experience, working with trade unions and works councils, globally and in the UK. Lynne has family origins in the Western Isles and the Highlands, and her considerable experience, skills and breadth of knowledge will complement our existing membership and contribute significantly to HIAL's future strategic direction.

Introduction from the Chair

Lynne replaces the skills and experiences of Jim McLaughlin, a long standing non-executive director on the Board, who stepped down at the end of February 2022. Let me take this opportunity to record my thanks to Jim for his contribution and positive impact as a board member over the years.

Reflecting on the 12-month period to 31 March 2022, it brought a mixture of both optimism and challenge for the organisation as the Covid rules and restrictions that controlled the country for so long were lifted. This allowed HIAL to refocus on its strategic plans and get back to providing business as usual airport services very quickly. However, the virus did not go away, and the longer-term impact of the restrictions on our colleagues and passenger confidence continued to have a significant impact on our airline and aviation partners.

Recovery will take some time and we continue to do all we can to support our customers and partners as we work together to build back confidence in air travel. I would like to thank them all for their patience and ongoing support as we continue our recovery together.

During Covid restrictions the Board embraced the technology that allowed it to continue to meet on a regular basis. However, with the lifting of travel restrictions, the Board were once again able to get out to our airports and meet in person with our colleagues and key stakeholders across the area. It also allowed our newer board members, who joined us just as the pandemic hit, to see first-hand both landside and airside operations at our airports.

Members were impressed with the teamwork and the obvious commitment of our colleagues to deliver the highest quality of service. They particularly appreciated the feedback and thanks from our colleagues on how supportive HIAL had been as an employer throughout the pandemic.

Our stakeholder engagement continued throughout the year with positive feedback from our local leaders on our extensive programme to keep them up to date. Indeed, HIAL was cited as an example of best practice in this regard. Our local engagement events following Board meetings have been very productive with a number of opportunities at different airports currently being explored as a direct result of such engagement.

During the year we augmented our regular political engagement at a local and national level with a concentrated public affairs programme. Again, this programme has been extremely constructive, and we will continue that engagement moving forward.

Throughout the year, the Board actively scrutinised the progress of the actions within the Corporate Operating Plan which aims to deliver HIAL's strategic priorities.

It was pleasing to note that in a year of recovery, 15 of the 26 objectives set had been completed. Five objectives that span into 2022/23 remain on target. Six objectives were behind target at year end but continue to be actioned with the Board receiving regular updates on progress.

To have 77% of objectives either completed or remaining on target is a significant achievement given the challenges we have and continue to face. I would like to thank our colleagues, as everyone, whether frontline at our airports, or in support functions at our Head Office, has contributed to the delivery of our Operating Plan. We have included a summary of our achievements later in this report.

Whilst I have reflected on the year to 31 March 2022, I would like to highlight the challenges we now face as we begin our journey through 2022 to 2023. As we continue to recover from the impacts of the pandemic, the country is faced with the most challenging fiscal situation in decades. The Scottish Government's Resource Spending Review, published on 31 May 2022 sets out the high-level parameters for resource spend for future Scottish budgets up to 2026-27. These indicative budgets show a decrease in the available funding for HIAL over the next three to four years and present a significant future funding challenge for the company. The pressure this creates for the company is further compounded by increasing inflation and rising price challenges.

As with every other organisation, HIAL must seek to optimise its earned income, reappraise priorities and spending options, and make challenging decisions based on the extraordinary circumstances we are all facing, as economic pressures impact our day-to-day activities and our future plans. The Board is currently considering several options to help address the current fiscal position and has decided that one of the options will be to scale back air traffic modernisation plans for the duration of the strategic spending review. As we move through 2022/23 the Board will work with the executive team to further review our strategic plan and objectives. This of course will be in the context of the external pressures we are – and will continue to face.

I mentioned my thanks to our customers for their support, and our colleagues for the incredible job they have done this past year. So, let me end by also thanking our Board members for their commitment and input at this challenging time. There is much still ahead but that is less daunting when the task is spread amongst a group of capable and dedicated individuals.

Lorna Jack
Chair, HIAL

Managing Director's Statement

Looking back, 2021/22 was, on balance, a more positive year, with Covid rules and restrictions across the country removed, and the number of Covid cases continuing to decline. Nevertheless, we maintained many of the measures and processes we introduced across our airports and buildings at the beginning of the pandemic, with the additional cleaning measures and sanitising processes now part of our everyday operations.

Notwithstanding the early signs of recovery, challenges following the pandemic continued to impact our airline partners, resulting in disruption for travellers, delays to scheduled air services and flight cancellations.

Inverness Airport ATC Tower

Managing Director's Statement

Despite this, passenger confidence continued to grow. Our final figures for 2021/22 report just over one million passengers across all eleven of our airports. This is a significant increase of 162% on passenger numbers for the previous year, when the impact of the pandemic was at its worst.

Based on the devastating impact of Covid-19 on passenger numbers during 2020/21, we set a cautious budget target of reaching 25% of pre-Covid passenger levels as an airport group by 31 March 2022. I am pleased to report that the vaccine roll out and strong uptake contributed to passenger numbers exceeding expectations, and we reached 61% of 2019/20 levels at the end of the reporting year.

A funding contribution from the Scottish Government to introduce a Public Service Obligation (PSO) for the reintroduction of a scheduled air services for Wick John O'Groats Airport was widely welcomed. We worked in partnership with The Highland Council, who led the process, aviation partners and the local community to help introduce a schedule to meet local needs, and the inaugural PSO flight from Wick to Aberdeen took place on 11 April 2022.

Over the year, HIAL received a public subsidy of £76,001,000 including revenue funding of £39,803,000 and capital funding of £36,198,000 which was supplemented by £1,347,000 of loan funding for our commercial activities.

Over 2021/22 we delivered an extensive capital programme to maintain the infrastructure and invest in our airports as we geared our operations for a return to normal service.

The capital investment of £36 million was spread across all 11 HIAL airports and Head Office and ranged from major runway resurfacing projects to the introduction of new systems to support our Finance, HR, and operational functions. Highlights from some of the capital projects delivered are included later in this report.

We continue to make progress to decarbonise our airport operations and infrastructure. During the year, we completed the programme to install energy efficient lighting at all our airports. Our plans to replace all diesel-powered airside equipment is well underway. We are introducing hybrid ground power charging units to support carbon reduction and improve exhaust emissions, and these will be leased to our ground handling agents.

The solar powered boarding ramps now in use at our airports provide an environmentally friendly solution to assist passengers on and off aircraft at all HIAL airports.

A first for HIAL this year was the installation of solar powered aerodrome ground lighting at Campbeltown Airport. These have proven both effective and efficient and we will be installing the same lighting system at Tiree later this year.

We saw the successful conclusion of the first phase of the Sustainable Aviation Test Environment (SATE) programme I mentioned in last year's annual report. Phase 1 featured successful pioneering sustainable aviation technology demonstration flights, which highlighted real life benefits for remote communities. None more so than the large drone trials to deliver mail to remote communities undertaken by Windracers and the Royal Mail, which has led Royal Mail to explore implementing this technology on a much wider scale. They plan to introduce 50 new routes over the next five years and the Highlands and Islands will directly benefit.

Looking forward to 2022/23, UKRI awarded £8.9m as part of the Future Flight Challenge competition for the next stage of SATE's development. This will allow the project to scale up its ambition to become the UK Centre of Excellence for Sustainable Regional Aviation.

While the SATE facilities are based at Kirkwall Airport, Phase 2 of the programme involves plans to work with other Highlands and Islands communities and will match the new technology with practical use cases to benefit communities in the area.

Although 2021 brought a return to a semblance of normality, 2022 brought significant financial challenges as we felt the cost of the Covid pandemic, coupled with rising inflation and increasing costs globally, affecting all aspects of our business.

Our Chair mentioned the challenging times ahead, and 2022/23 will see us reappraise our strategic priorities and operational plans to help address the current fiscal constraints.

In uncertain times, the one constant is the dedication and professionalism of our teams right across the Company and our airline partners who ensure that the communities in this remote part of Scotland remain connected. I remain grateful to them all.

As a team, HIAL will continue to work in partnership with Transport Scotland, our airline operators and local communities to ensure the long-term sustainability of aviation connectivity for the Highlands and Islands.

Inglis Lyon
Managing Director, HIAL

Strategic Report

The directors submit their Strategic Report and the Group financial statements for the year ended 31 March 2022.

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.

This included maintaining Covid-19 mitigation measures and procedures to ensure the continued safety and wellbeing of staff, customers and passengers, as the restrictions imposed as a result of the virus were eased.

Results and dividends

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

The parent company loss after taxation from continuing operations amounted to £1,108,000 (2021: profit £124,000). The directors recommend that no dividend be paid.

Review of the business

Public subsidies received for the year ended 31 March 2022 totalled £76,001,000 (2021: £56,846,000) made up of revenue of £39,803,000 (2021: £36,600,000) and capital of £36,198,000 (2021: £20,246,000). There was capital loan funding of £1,347,000 (2021: £3,555,000).

We also received £59,000 for furlough arrangements under the Coronavirus Job Retention Scheme. Passenger numbers across the Group increased by 162% and aircraft movements increased by 62%. Excluding Dundee Airport these variances have increased by 158% and an increase of 52% respectively, when compared to the previous year.

	2019/20	2020/21	2021/22	Var 2019/20	Var 2020/21
	No.	No.	No.	%	%
Passengers	1,682,245	392,682	1,028,466	-39	162
Movements	130,388	65,685	106,295	-18	62

Wick John O'Groats Airport

Strategic Report

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.

Principal risks and uncertainties

The Group has an established Risk Oversight Group which is accountable to the HIAL Board through the Audit Committee. 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 strategic, financial, business, legislative and operational.

- **Strategic Risks**
  The Company has now established a more formal process for capturing and managing strategic and sensitive risks within the business. This now forms a standing agenda item for Board and Audit Committee scrutiny.
- **Financial Risks**
  The Group is exposed to a variety of financial risks which are regularly monitored and reviewed by the Board and Audit Committee. As the Group relies on public funds to maintain operations across its 11 airports, it is susceptible to changes in public funding, which is influenced by the wider economic climate and decisions made at the UK and Scottish Government level. There is uncertainty around the level of revenue and capital funding beyond the next 12 months. Indicative budgets show a decrease in available funding for HIAL over the next three to four years and present a significant future funding challenge for the Group. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continually monitoring forecasted and actual cash flows.
- **Business Risks**
  The income for the Group is derived from a limited number of airline customers. Any external pressures faced by those customers may lead to them reviewing their operating schedule and this in turn may impact on Group income and costs.
- **Legislative risks**
  Airport operations across the Group are regulated by the Health and Safety Executive, UK Civil Aviation Authority (CAA), Scottish Environmental Protection Agency and security standards are set by the Department for Transport and inspected by the CAA. These bodies regularly review and update their standards and requirements and it is unlikely that the regulatory burden will reduce.
- **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 informed by Scottish Government policy.
- **COVID risks**
  The Group faces the challenge of balancing the recovery post Covid with ongoing environmental commitments. The continued, though reducing, impacts of Covid-19 continue to be risk assessed and monitored by Directors as explained in the Governance Statement on page 28.

Strategic Report

Annual traffic statistics

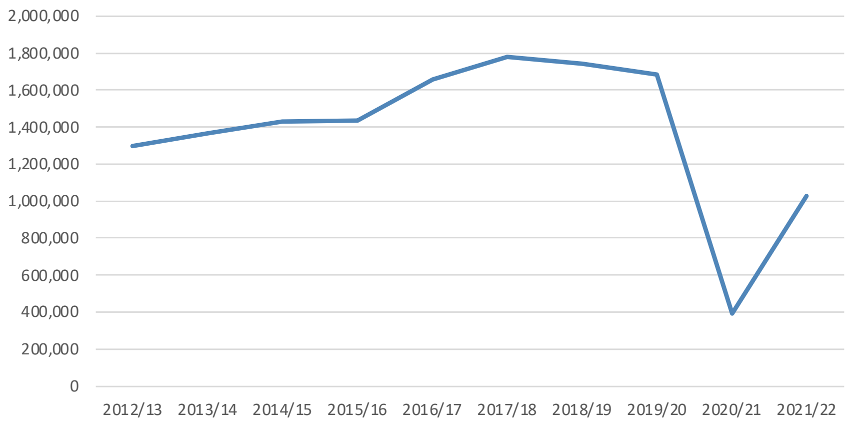
For the year ended 31 March 2021

	Passengers			Movements		
	2021/22	2020/21	Variance	2021/22	2020/21	Variance
	No.	No.	%	No.	No.	%
Barra	11,814	4,471	164.2%	1,253	816	53.6%
Benbecula	28,152	15,155	85.8%	3,016	2,312	30.4%
Campbeltown	4,767	2,232	113.6%	1,218	916	33.0%
Dundee	25,828	4,751	443.6%	27,652	14,067	96.6%
Inverness	458,976	110,406	315.7%	28,520	15,740	81.2%
Islay	17,365	5,239	231.5%	2,609	1,586	64.5%
Kirkwall	112,931	53,526	111.0%	11,887	8,736	36.1%
Stornoway	80,463	26,181	207.3%	7,604	4,877	55.9%
Sumburgh	275,618	162,553	69.6%	18,151	12,755	42.3%
Tiree	10,057	4,333	132.1%	1,539	1,074	43.3%
Wick John O'Groats	2,495	3,835	(34.9%)	2,846	2,806	1.4%
Total	**1,028,466**	**392,682**	**161.90%**	**106,295**	**65,685**	**61.08%**

10 year statistics

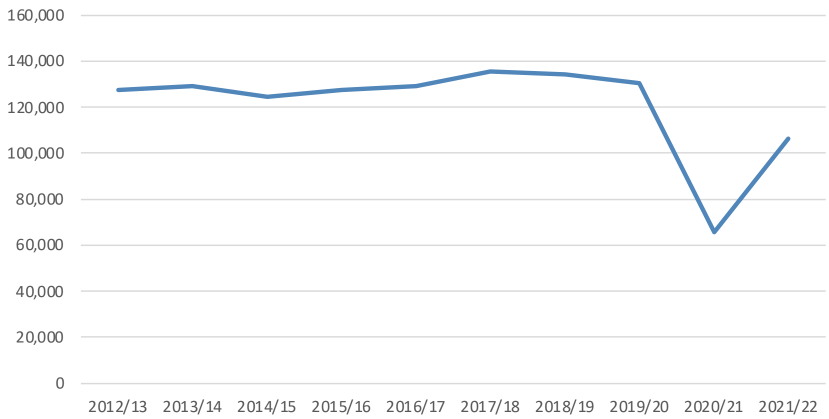
Total Passengers

2021/22	1,028,466
2020/21	392,682
2019/20	1,682,245
2018/19	1,742,366
2017/18	1,780,521
2016/17	1,658,423
2015/16	1,437,625
2014/15	1,431,452
2013/14	1,367,342
2012/13	1,297,676



Aircraft Movements

2021/22	106,295
2020/21	65,685
2019/20	130,388
2018/19	134,094
2017/18	135,620
2016/17	129,110
2015/16	127,359
2014/15	124,738
2013/14	129,106
2012/13	127,645



Strategic Report

HIAL's Strategic Objectives

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

HIAL's Corporate Operating plan set the key priority areas for delivery between 1 April 2021 and 31 March 2022 to meet its strategic priorities:

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

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

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

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

Tiree Airport

Strategic Report

What we have achieved

At the end of 2021/22 the Board was pleased to note that 15 of the 26 objectives have been completed. Five objectives that span into 2022/23 remain on target. However, six objectives were behind target on 31 March 2022.

A summary of what we have delivered during 2021/22 is included below.

☑ Objective completed ☑ Objective partly completed

Environmental Care and Excellence

We have:

- ☑ Delivered the environmental infrastructure for the Sustainable Aviation Test Environment (SATE) in Orkney, including the construction of an aircraft hangar, electrical connections, and surface access improvements. Helping meet the Scottish Government's target to create a net-zero aviation region by 2040.
- ☑ Installed energy efficient lighting at all HIAL airports as a part of our programme to de-carbonise airport operations and infrastructure.

We will:

Develop HIAL's overarching environmental strategy and produce a roadmap to help achieve our aim of becoming a net-zero carbon regional airport group. This will be included in our 2022/23 Corporate Operating Plan.

Install environmentally efficient airside equipment to support carbon reduction and improve exhaust emissions at HIAL airports.

Delivering World Class Customer Service and Operations

We have:

- ☑ Improved our airport facilities for passengers and staff post-Covid-19 by delivering a range of contactless initiatives. These include customer feedback points at all airports and automatic boarding card readers. Automatic ticket check in kiosks at Kirkwall, Stornoway and Sumburgh airports.
- ☑ Completed Access Able surveys for all our airports and are currently tendering for the contract for passengers with reduced mobility services. We will award the contract in 2022/23.

We will:

Install security body scanners at Inverness and Sumburgh airports and install electronic scan gates. We will continue to improve customer accessibility in partnership with accessibility groups.

Note: At their meeting on 24 August 2022, the Board made the decision to wind up the ATMS Board Sub-Committee. This is the final action from the Board to close the original ATMS programme following the change in strategic direction agreed in January 2022. The Scottish Government Resource Spending Review published in May 2022 sets out the high-level parameters for resource spending for future Scottish budgets up to 2026-27. These indicative budgets show a decrease in available funding for HIAL over the next three to four years and present a significant future funding challenge for the company. The Board is considering several options to help address the current fiscal position and decided one of the measures will be to scale back air traffic modernisation plans for the duration of the strategic spending review.

Strategic Report

Route Development and Improving Connectivity

We have:

- ✓ Researched passenger demand and timescales for Covid-19 recovery, working closely with partner agencies and business forums.
- ✓ Created a route development strategy and implemented different financial support models for airlines to support recovery post-Covid.
- ✓ Exceeded our target of reaching 25% of pre-Covid passenger levels and airline income by the end of the financial year. Year-to-year passenger numbers were running at just over 60% of pre-covid 19 levels on 31 March 2022.

Sustainable Financial Growth

We have:

- ✓ Delivered significant airport infrastructure projects including the resurfacing of the runway at Campbeltown, accommodation pods at Islay Airport. We have begun the coastal erosion works at Stornoway Airport and the development project at Barra airport
- ✓ Aligned our internal response structure and our continuity plans with other public bodies to improve efficiency and operability.

We will:

Continue to develop and implement non-aeronautical revenue recovery plans for each airport, including real estate and airport concession opportunities.

Continue the development of commercial plans for the Energy Sector and the Sustainable Aviation Test Environment to develop new revenue streams.

Delivering Digital Transformation

We have:

- ✓ Developed HIAL's corporate website and all airport websites to showcase information for our customers and stakeholders, with the user journey at the forefront. We have achieved accreditation to Web Content Accessibility Guidelines (WCAG) Level AAA for these websites.
- ✓ Successfully implemented digital systems to streamline business processes and improve access to data for HR, Finance and Airport Operations.

We will:

Continue to utilise business analytics and data collection to improve efficiency, target initiatives and enhance decision making.

Continue with the introduction and development of smart technology, such as digital sensors and measuring devices to enhance infrastructure information to better manage our airport operational environments.

Building Successful Partnerships

We have:

- ✓ Created and published HIAL's Communications and Engagement strategy. The document is available in both English and Gaelic versions. Underpinning policies and processes will be developed throughout 2022/23.
- ✓ Worked in partnership with The Highland Council, aviation partners and the local community to help introduce a Public Service Obligation (PSO) for Wick John O'Groats Airport. The inaugural PSO flight from Wick to Aberdeen took place on 11 April 2022.
- ✓ Continued to work with Dundee City Council to promote Dundee airport and links to London. Funding has been provided by partners to support the Dundee to London City PSO route.

We will: Continue to work with the University of the Highlands and Islands (UHI) and identify projects for collaborative working to support the delivery of our strategic priorities.

Developing our People

We have:

- ✓ Obtained 'Investors in People' (IIP) accreditation during 2021/22, and ongoing accreditation is supported by the IIP action plan. We rolled out our new appraisal process across the organisation.
- ✓ Undertaken a pay and grading review, which will be revisited in light of the 2022/23 pay remit scope.
- ✓ Developed a project management delivery and resource model to streamline processes and enhance project management skills within our teams.
- ✓ Developed a Health, Safety and Wellbeing Strategy.

HIAL EXPANDS GAELIC AWARENESS TRAINING

In April 2021, HIAL's Board and Senior Management Team took part in a course that covered the history of the language, its place in modern Scotland and how HIAL's Corporate Strategy and Gaelic Language Plan tie in. HIAL will look to enhance awareness and use of Gaelic within the organisation, with a particular focus on customer-facing staff.

During the year, HIAL undertook a refresh of its corporate and airport logos to ensure equal importance to both the English and Gaelic languages. In September 2021, HIAL published its updated Gaelic Language Plan for 2021-26.

> **"HIAL is in the privileged position of welcoming a significant number of Scotland's tourists and visitors and of often being their first experience of Highland or island life. It was refreshing to see how many people of all ages still truly value the language and music."**
>
> Lorna Jack, HIAL Chair

Strategic Report

Investing in our airports

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

During 2021/22 we invested £36m in our airports and head office in key capital projects. Some of the works completed are included below:

- **Barra Airport** – investment in several on-site buildings and the ongoing design work for a new terminal building and vehicle store redevelopment which will be completed in 2022/23. Gabion baskets to protect the beach runway and runway marking lighting.
- **Benbecula Airport** – runway rejuvenation and building recladding works. Installation of energy efficient lighting and street and footpath lights. Refurbishment of the terminal building and construction of a large vehicle store.
- **Campbeltown Airport** – runway resurfacing and installation of solar powered runway lighting.
- **Dundee Airport** – runway rejuvenation works. Air traffic engineering improvements including the installation of new meteorological equipment.
- **Inverness Airport** – further environmental enhancements to our surface water drainage system. Installation of surveillance aids and meteorological equipment and works on the airside pavement area.
- **Islay Airport** – runway works and new plant and equipment, including sweeping vehicle, utility tractor and runway de-icing trailer.
- **Kirkwall Airport** – infrastructure investment to accommodate the Sustainable Test Environment (SATE) programme. Optioneering works to improve taxiways, runways and lighting systems.
- **Stornoway Airport** – coastal erosion prevention works, extension of the main airport apron area to accommodate larger aircraft, runway lighting equipment and installation of energy efficient lighting.
- **Sumburgh Airport** – preparation for runway rehabilitation works, and purchase of a security body scanner.
- **Tiree Airport** – runway rehabilitation and drainage works, purchase of new plant including a tractor and de-icer trailer. Fire ground resurfacing works.
- **Wick John O'Groats Airport** – replacement of some security x-ray machines, new vehicles delivered and additional improvements to the fire station, including new bay door.
- **Head Office** – reconfigured head office to accommodate flexible and hybrid working. Introduction of new systems for Finance, HR, and operational functions.

In 2021/22, we installed energy efficient lighting at all HIAL airports as a part of our programme to de-carbonise airport operations and infrastructure. We have also agreed the lease of hybrid ground power charging units to our ground handling agents to support our airside carbon reduction programme and improve exhaust emissions.

We invested in bulk storage facilities for de-icer across all our airports. These storage tanks house the potassium formate fluid that forms part of the more environmentally friendly de-icing solution. The technology included as part of the installation provide for effective and efficient inspection, monitoring and distribution through telemetry.

Last year, HIAL introduced the potassium formate fluid and solid granule de-icing solution across all its airports. When compared to the previous products, it has an extremely low environmental impact, high performance, with corrosive limiting properties.

When combined with satellite-based technology in our new vehicles and de-icing trailers we can now accurately record those areas which have been de-iced or those that require further treatment.

Strategic Report

Team HIAL

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

During 2021/22, everyone had a role to play, from our frontline teams at the airports to our support teams based in our Head Office. Everybody stepped up to bring us back into business-as-usual operations quickly and efficiently.

Our goal was to create a positive working environment focused on the wellbeing of our people and effective work-life balance. We have learned from the new models of working that were introduced during the pandemic such as remote and hybrid working, and we believe they will have longer term benefits for both our colleagues and the Company.

Last year saw a slow return to office working, with many colleagues opting for a hybrid working solution between home and the office.

We have introduced a number of remote working opportunities, with a number of head office and support functions being undertaken from our airport locations, in particular those based on islands.

In 2021 the Company completed an external Investors in People (IIP) Assessment and was awarded the IIP Developed status. This assessment recognised the significant work undertaken over the last two years to enhance our people management policies and processes and learning and development activities.

HIAL continues to be:

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

disability confident COMMITTED

We are a Living Wage Employer

CARER POSITIVE Employer in Scotland ENGAGED

HIAL COLLEAGUES APPOINTED TO TOP LOCAL FIRE POSTS

A focus for HIAL is to expand knowledge and experience into development opportunities for our colleagues. Two colleagues who took advantage of such opportunities presented throughout their careers were appointed as Airport Fire and Operations Mangers at Sumburgh and Kirkwall airports during 2021.


Jamie Conley, Sumburgh Airport

"I have always been keen to progress within HIAL. The opportunities within the service are fantastic, and every airport within the HIAL group is so different in terms of what needs to be done on a day-to-day basis."

Jamie Conley, Airport Fire and Operations Manager at Sumburgh, who is currently undertaking a graduate apprenticeship

"Everyone that I have worked with at HIAL has encouraged and supported my development. I'm especially thankful to the team at Kirkwall as they have taught me so much over the years and I still continue to watch, listen and learn from them."

Margaret MacRae, Airport Fire and Operations Manager at Kirkwall

Margaret MacRae, Kirkwall Airport

Strategic Report

HIAL in the community

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

Throughout 2021/22 our teams did what they could to support our local communities and passengers.

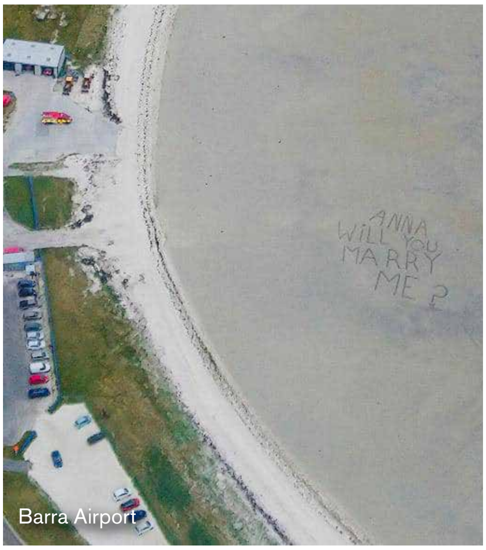
In May 2021, the team at Barra and local Loganair staff went out of their way to help Jamie Forde to ask his fiancée to marry him.

Jamie got in contact with the team at Barra Airport prior to their arrival to ask if they would be able to help facilitate the drawing of the question into the sand. The pair then flew into Barra from Glasgow on Saturday 15 May 2021 where Anna was presented with the question on approach to landing, and she said yes.

Gary Johnstone, Watch Manager at Dundee Airport Fire Service is one of three Directors at the International Fire and Rescue Association (IFRA); a Scottish Charity set up in 2001 to assist Firefighters and Emergency Services worldwide. The charity's mission is to promote the preservation and protection of life from fire and other disasters. IFRA is Scotland's biggest International Fire and Rescue charity and staffed by volunteers from all walks of life. He provides training and support across the world, having completed several training missions in Argentina.

Gary highlighted that HIAL as an organisation has been so supportive of his work with the charity. The training he received at HIAL allows him to take that learning to these remote communities and pass it on. Gary enjoys going back and seeing the training in action and the difference it makes.


Jamie and Anna



Barra Airport


Gary Johnstone having exercise discussion with translator

Strategic Report

HIAL in the community (continued)

Run the Runway returned to Inverness Airport in 2021 and raised over £30,000 for Maggie's Highland. The event took place on Saturday 31 August, and it was the fourth time it had been held at Inverness Airport.

There were over 150 participants, with the majority dressed to impress. Entrants were able to run, jog, walk or wheelchair down the length of the runway and back at midnight, a course of just over 5k. The event was supported by the team at Inverness Airport - including a well-deserved bacon roll from The Stag and Thistle at the end - with volunteers from Maggie's and local Rotary clubs helping on the night.

The team at Islay Airport hosted their first ever Run the Runway event on Saturday 2 October 2021 to raise money for Scotland's Charity Air Ambulance. People of all ages and abilities were given the unique opportunity to walk or run 5km on Islay Airport's runways, with children having the chance to take on a one-mile route. The inaugural event was a great success raising nearly £4,400 for charity.

In November 2021, HIAL renewed its commitment to the Armed Forces Covenant, pledging to support recruitment within the Armed Forces community, including reservists, veterans, and family members of those serving in the forces.

HIAL has over 60 colleagues who are affiliated with the Armed Forces and supports reservists and veterans within the organisation. HIAL first signed up for the scheme in 2015 and has committed to the scheme for the next five years.

Presentation of Armed Forces Covenant


Inverness Run The Runway

Strategic Report

HIAL in the community (continued)

Kirkwall Airport have become a key partner in a paramedic placement scheme. Working in partnership with NHS Orkney, paramedic science students from Robert Gordon University, Aberdeen, worked alongside the airport fire service crew in November 2021 and February 2022.

During their three-year degree, students will undertake eight-week placement blocks: four weeks with the ambulance crew, and four weeks linking with services in NHS Orkney and the wider community. In their second year, one of these eight weeks is spent with the Emergency Services.

At Kirkwall Airport, the students can experience a different aspect of the emergency services, as well as understanding the multi-agency work that will be required of them.

Working alongside the fire service team, the students were involved in a fireground exercise, and responded to a simulated trauma incident where they had to demonstrate the skills they had learned.

Kirkwall Airport staff


Fireground exercise

INVERNESS AIRPORT SUPPORTS LOCAL ARTISTS

Working in partnership with Wasps' Inverness Creative Academy, Inverness Airport provided the venue for graduates of the University of the Highlands and Islands (UHI) to feature their work in an art exhibition.

The launch of Highland Creatives in April 2021 provided the opportunity for local emerging artists to showcase their work in a public space, with the art available to buy directly from the creators.

The exhibition was refreshed in December 2021, allowing different artists the opportunity to display their work to a diverse range of travellers.

Yelena Visemirska, Inverness College UHI alumni

"I was delighted when the university and the creative team at Wasps approached us with their idea of installing an art exhibition in our terminal building. We are only too pleased to be able to help local artists and the wider creative community during such challenging times."

Graeme Bell, Inverness Airport General Manager

Strategic Report

Trade Union Act 2016:

Facility Time Reporting from 1 April 2021 to 31 March 2022

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

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

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

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

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

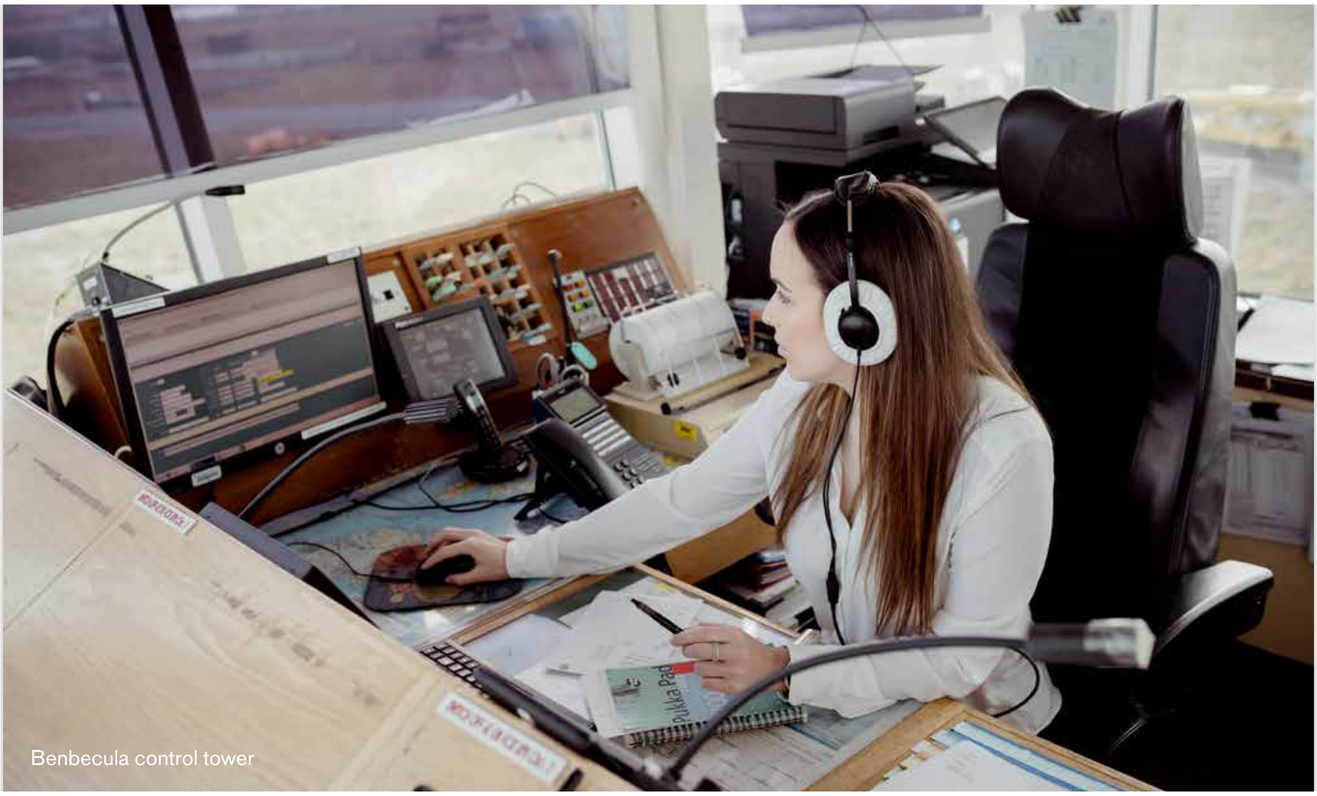
The JNCC is attended by local trade union representatives. In addition, the Company has specific arrangements and meetings with the relevant trade union for significant projects and programmes of work. Each airport has in place interface arrangements in which local representatives participate.

Trade Union Representatives 2021/22

Prospect	27
PCS	1
Unite	6

HIAL has no full-time trade unions officials.
Each of the 34 representatives will spend less than 10% of their working time on trade union duties.

Over the last two years the Company has experienced turnover in the full-time Negotiation Officers from each of the trade unions. The positive engagement established through the pandemic has continued and there is good engagement with officials through our Joint Negotiation JNCC as well as our newly created Policy Steering Group which provides more time to discuss the development of HIAL employment policies.



Benbecula control tower

Sustainable Aviation Test Environment (SATE)

The first phase of this innovative project created the UK's first operationally based, low-carbon aviation test centre at Kirkwall Airport in the Orkney Islands.

Phase 1 featured pioneering sustainable aviation technology demonstration flights, highlight real life benefits for remote communities:

- First hybrid electric flights for Scotland pioneered by Ampaire
- Large drone specialist technology firm Windracers with Royal Mail on autonomous flights, successful trial delivering mail to remote communities, leading to Royal Mail implementing this technology on a much wider scale
- Dedicated hangar facilities and office space have also been created at Kirkwall Airport which is the UK's first low-carbon aviation test centre embedded at a commercial airport.
- Providing a £5m economic impact for Orkney

Looking forward to 2022/23, the funding of £8.9m provided by UK Research and Innovation (UKRI) as part of the Future Flight Challenge competition, will allow the programme to progress the next stage of SATE's development.

While the SATE facilities are based at Kirkwall Airport, Phase 2 involves plans to work with other Highlands and Islands communities and will match the new technology with practical use cases to benefit communities in the Highlands and Islands as part of Phase 2.

Phase 2 will help deliver the project's ambition is to scale up and become the UK Centre of Excellence for Sustainable Regional Aviation.

Project highlights include:

- Establishment of a drone hub-and-spoke delivery network
- First hydrogen-propelled (19 seat) regional-aircraft flight
- New technology demonstration flight from Orkney to Norway
- Establishing a dedicated test environment airspace
- Geospatial analysis, and socio-economic modelling and the development of the future Highlands and Islands sustainable aviation route network.
- The development of an airspace model which permits scheduled flights and unmanned aerial vehicles (UAV's) to operate simultaneously.

SATE Phase 1 End of Project event, Kirkwall Airport

Strategic Report

Streamlined Energy and Carbon Reporting (SECR)

SECR reporting requirements

The streamlined energy and carbon reporting (SECR) regulations is a mandatory reporting framework to replace the CRC energy efficiency scheme. The regulation came into force on 1st April 2019 and covers financial reporting years starting on or after this date. For Highlands and Islands Airports Limited (HIAL) this is 1st April 2021 to 31st March 2022.

The regulation applies to large companies that meet the following requirements:

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

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

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

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

At HIAL, we have been publicly reporting our emissions in line with UK mandatory greenhouse gas reporting regulations since FY 18/19. Following the introduction of the streamlined energy and carbon reporting requirements we will continue to publish our energy consumption and associated carbon emissions in our annual report accordingly.

The emissions reported include emissions from all our owned and operated airports. These are: Benbecula Airport, Barra Airport, Campbeltown Airport, Dundee Airport, Inverness Airport, Inverness Head Office, Islay Airport, Kirkwall Airport, Stornoway Airport, Sumburgh Airport, Tiree Airport, and Wick John O'Groats Airport. The finances for these airports are consolidated at the group level, and therefore we have consolidated our emissions in the same manner. Table 1 overleaf outlines our emissions profile for the 2021/22 financial year (April-March), where in the location-based approach our emissions have increased by 7.5% and in the market-based approach, emissions have increased by 23%.

A location-based methodology reflects the average emissions intensity of grids on which energy consumption occurs using grid-average emission factors. A market-based methodology reflects emissions from electricity that companies have purchased; HIAL has chosen to purchase electricity from 100% renewable sources.

Table 1 HIAL Emissions Profile – Like-for-Like mandatory emissions reporting for the 2020/21 and 2021/22 financial years

		Location Based		Market Based	
	Unit	**20/21 FY UK and Offshore**	**21/22 FY UK and Offshore**	**20/21 FY UK and Offshore**	**21/22 FY UK and Offshore**
Energy consumption used to calculate emissions: kWh	**kWh**	17,516,506	19,634,445	17,516,506	19,634,445
Emissions from combustion of natural gas (Scope 1)	**tCO2e**	32	42	32	42
Emissions from combustion of other heating fuels (Scope 1)	**tCO2e**	1,551	2,227	1,551	2,227
Emissions from combustion of fuel for transport purposes (Scope 1)	**tCO2e**	685	492	685	492
Emissions from business travel in rental cars (fuel cards) or employee-owned vehicles (mileage claims) where company is responsible for purchasing the fuel (Scope 3)	**tCO2e**	10	48	10	48
Emissions from purchased electricity (Scope 2)	**tCO2e**	1,990	1,779	-	-
Total like-for-like CO2e based on above	**tCO2e**	**4,267**	**4,588**	**2,277**	**2,809**
Like-for-like Intensity ratio: kgCO2e / total passenger numbers kgCO2e / total passenger numbers	**kgCO2e/PAX**	10.87	4.46	5.80	2.73

To facilitate year on year comparison of emissions taking into account fluctuations in activity level, HIAL has calculated the intensity ratio of emissions per total passenger numbers for the reporting year. This is based on 392,682 passengers for FY 2020/21, which were significantly impacted by the travel restrictions at the height of the Covid pandemic, and 1,028,466 passengers for FY 2021/22. The significantly increased passenger numbers have led to the intensity ratios dropping in 2021/22.

Strategic Report

In this reporting year additional insight has been provided in Table 2 below, namely:

- Enhanced reporting of emissions associated with fuel and energy activities that are not typically included in scope 1 and 2 boundaries. Therefore, well to tank (WTT) and transmission and distribution (T&D) losses associated with electricity, heat, and fuel consumption in scope 1 and 2 are included.
- An additional category of Scope 3 emissions data: business travel emissions data, has been included to fully reflect the extent of internal business travel activities undertaken by HIAL employees, specifically via the use of public transport.

Table 2 HIAL Profile – Reporting of Optional Scope 3 Emissions for the 2021/22 financial year

		Location Based	Market Based
	Unit	**21/22 FY UK and Offshore**	**21/22 FY UK and Offshore**
Emissions from combustion of natural gas (Scope 3 WTT)	**tCO2e**	7.17	7.17
Emissions from combustion of other heating fuels (Scope 3 WTT)	**tCO2e**	493	493
Emissions from combustion of fuel for transport purposes (Scope 3 WTT)	**tCO2e**	122	122
Emissions from business travel via use of public transport (Scope 3)	**tCO2e**	0.61	0.61
Emissions from purchased electricity (Scope 3 WTT, T&D, WTT and T&D)	**tCO2e**	662	-
Total Scope 3 CO2e emissions	**tCO2e**	**1,280**	**623**
Total Gross CO2e emissions (including the like-for-like CO2e per Table 1)	**tCO2e**	**5,873**	**3,432**

Energy efficiency actions

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

- Compiled carbon management plans for each of HIAL's 11 airports, to demonstrate our commitment to understanding and reducing our emissions across the board, including challenging Scope 3 emissions from aviation. Inverness Airport achieved a level 2 "Reduction" under the Airport Carbon Accreditation (ACA) scheme in 2022.
- Commissioned a net zero roadmap study covering all Scope 1 and 2 emissions reported under SECR as well as significant Scope 3 emissions from aviation and passenger travel. Key amongst the recommendations set out in the roadmap to enable us to meet our 2040 net zero target, was to focus our efforts to decarbonise aviation and surface access emissions, which are responsible for the majority of emissions at our airports.
- Continued roll-out of LED lighting replacements, both internal and external, with sensor controls where appropriate, which is now nearing completion.
- Commenced the transition for our operational fleet from fossil fuel to renewable energy at both Sumburgh and Inverness.
- Reducing emissions from fire training at our airports by piloting reducing training frequency to once per month, and testing of equipment to once per week, and investing in alternate methods of training, including virtual sessions.
- Improving efficiency of existing heating systems in multiple airports through equipment upgrades and replacement of insulation in older airport buildings.

airport carbon accredited
MAPPING

Methodology used for carbon footprint calculation

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

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

HIAL also has tenants where the responsibility for purchasing the energy is within HIAL's remit but the energy is being consumed by the tenant and is then re-charged to the tenant. Emissions from these sources were excluded from this report. This includes electricity and heating fuels and transport fuels consumption at the following airports:

- For natural gas, the tenant in Dundee (Tayside Aviation), consumed 92,233 kWh, equating to 16,893 kgCO2e.
- For electricity at Inverness (retail and car hire concessionaires), consumed 244,272 kWh, equating to 51,866 kgCO2e.
- For electricity at Kirkwall (North Air, Island Kitchen, Met Office, Happy Haddock, and Scottish Fire & Rescue Service), consumed 70,435 kWh, equating to 14,955 kgCO2e.
- For electricity at Sumburgh (North Air, Star Rent A Car, Babcock and Loganair), consumed 27,204 kWh, equating to 5,776 kgCO2e.
- For electricity at Stornoway (Bristow Helicopters, Car Hire Hebrides, Highland Fuels, North Air, Farm Dairy, DRDF), consumed 237,107 kWh, equating to 50,345 kgCO2e.
- For heating fuels and transport fuels consumed at Stornoway, 75,457 kWh was consumed by Loganair, equating to 19,300 kgCO2e.

Strategic Report

Methodology used for carbon footprint calculation (continued)

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

HIAL has also made the decision to voluntarily report the market-based emissions alongside the mandatory location-based emissions methodology, as this will consider HIAL's purchase of 100% Renewable Energy Guarantees of Origin (REGO) backed electricity. With evidence to support this, all electricity supplied to HIAL through EDF has had their emissions multiplied by a factor of zero.

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

Motor Transport, Sumburgh Airport

Compliance Statement

Ricardo Energy & Environment (REE) has been working with HIAL to calculate HIAL's 2021/22 greenhouse gas (GHG) and environmental data for SECR reporting. This statement summarises the outcome of the process.

Assurance period

The period for which emissions are reported is 1 April 2021 to 31 March 2022.

Level and scope of assurance

REE has carried out a limited level assurance review of HIAL's 2021/22 GHG and environmental data with the purpose of enabling HIAL to be compliant with SECR. The data provided covered mandatory reporting data. This assurance covers the emissions profile outlined above in Section 2 SECR material for the Highlands and Islands Airports Limited annual report.

Assurance methodology

The assurance of HIAL's 2021/22 greenhouse gas and environmental data by REE has been conducted in line with ISO 14064-3: 2019: Specification with guidance for the validation and verification of greenhouse gas assertions as well as the ISAE 3000 (revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information criteria.

Ricardo Energy and Environment's opinion

Based on Ricardo Energy & Environment's review:

1. HIAL is well prepared for complying with the SECR legislation and the requirements of the scheme in 2021/22.
2. The data that will be used to create the SECR annual report submission is comprehensive, well-structured and to a high degree of accuracy.
3. There is scope for the data management processes to be improved for future reporting periods to enable swifter SECR compliance calculations. HIAL is already working towards this end by:
   - Putting in place a recurring annual data request for the relevant SECR group-level data to be made available by HIAL internal Finance/Accounts Department;
   - Putting in place a recurring annual data request for the relevant Scope 3 aircraft data (Aircraft Engine Testing and LTO/CCD data) to be made available by airline operators at HIAL airports;
   - Putting procedures in place to ensure that all relevant airport departments are able to access and store the required consumption data internally at one central location; and
   - Making Rio sustainability software platform refresher training available for the next reporting period to Airport Admin Officers and other staff which are involved in the carbon footprint data collection process.
4. The review of data found no material errors and no omissions which were not accounted for from the required data.

Conclusion

Based on the audit of the processes and procedures conducted, and except for the case of some third-party transport and heating fuels outlined in the methodology section, there is no evidence that the 2020/21 GHG data is not materially correct and is not a fair representation of HIAL's data and information.

Ricardo Energy and Environment recommends that HIAL undertakes a similar GHG assurance in 12 months' time and routinely checks its environmental data.

Independence and competence

Ricardo Energy and Environment is one of the world's leading energy and climate change consultancies, with over 1,000 internationally respected experts specialising in offering independent advice and auditing services in the fields of energy, air quality, resource efficiency, transport, sustainability, and economics. Its experts have been involved in ground-breaking technical and policy development across the environmental spectrum for the last 40 years, and they continue to play a lead role as advisor to governments, policy makers and major corporations.

Validity of statement

This statement is valid for the GHG and environmental data assurance review, for the period from 1 April 2021 to 31 March 2022.

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

James Broughton MIChemE
Senior Consultant
Sustainability: Energy and Carbon Management
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Carbon Footprint

Our carbon footprint is a calculation of the greenhouse gas emissions caused as a result of all HIAL's operations and activities across each year.

Market Based

A market-based methodology reflects emissions from electricity that companies have purchased. HIAL has chosen to purchase electricity from 100% renewable sources.

Scope 1

Direct emissions under HIAL's control coming from fuels burnt on site

such as heating buildings and running vehicles

BASELINE 2018/2019	2019/2020	2020/2021
2,735 tCO_2e	↓ 2,568 tCO_2e	↑ 2,672 tCO_2e

Scope 2

Indirect emissions from the generation of purchased electricity

BASELINE 2018/2019	2019/2020	2020/2021
0 tCO_2e	↑ 8 tCO_2e	↓ 0 tCO_2e

Location Based

A location-based methodology reflects the average emissions of energy consumption from the national grid.

Scope 1

Direct emissions under HIAL's control coming from fuels burnt on site

such as heating buildings and running vehicles

BASELINE 2018/2019	2019/2020	2020/2021
2,735 tCO_2e	↓ 2,568 tCO_2e	↑ 2,672 tCO_2e

Scope 2

Indirect emissions from the generation of purchased electricity

BASELINE 2018/2019	2019/2020	2020/2021
2,339 tCO_2e	↓ 2,271 tCO_2e	↓ 1,879 tCO_2e

All figures are based on tCO_2e (tonnes (t) of carbon dioxide (CO_2) equivalent (e))

Directors' Report

The directors submit their report and the group financial statements for the year ended 31 March 2022.

Directors

The directors who served during the year to 31 March 2022 and subsequently are:

Lorna Jack, MA, CA	Chair	
Inglis Lyon, BSc (Hons) LLB	Managing Director	
Jamie Manson	Finance Director	(Appointed 17/10/22)
Johanna Wallace, BSc (Hons) CA	Finance Director	(Resigned 27/5/22)
James McLaughlan, Chartered MCIPD, MBA	Director	(Resigned 28/2/2022)
Lynne Clow	Director	(Joined 1/3/2022)
Eric Hollanders	Director	
Wilhelmina Strachan CA (SA)	Director	
Christopher Holliday	Director	
Isabel Todenhoefer	Director	

Directors' qualifying third party indemnity provisions

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

Auditor

The appointed auditor, Azets Audit Services have expressed their willingness to continue in office as auditor and will be proposed for re-appointment in accordance with section 485 of the Companies Act 2006.

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
9 November 2022

Governance Statement

Introduction

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

The purpose of the Governance Statement is to explain the composition and organisation of HIAL's governance structures and how they support the achievement of HIAL's objectives. It sets out the governance structures, risk management and internal control processes that have been operating in HIAL during financial year 2021/22 and reports my assessment of the effectiveness of these arrangements.

Governance framework

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

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

The following diagram outlines the current governance structure.

Governance Statement

The Board

The Board determines the business strategy of the group, taking into account the Scottish Ministers' expressed policy to encourage economic and social development in the areas served by HIAL. The Board has collective responsibility for maintaining a sound system of corporate governance and internal control that supports the achievement of Highlands and Islands Airports Ltd.'s policies, aims and objectives whilst safeguarding public funds and assets. The role of the Board is set out in the Framework Document between the Scottish Government and HIAL, which is being renewed in 2022. The HIAL Board is responsible for providing leadership, direction, support and guidance to the Company, whilst ensuring that HIAL delivers its functions effectively and efficiently and in accordance with the aims, policies and priorities of the Scottish Ministers.

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

For 2021/22, the Board was composed of eight members. The eight members are the non-executive chair, the executive managing director, the executive finance director and five non-executive directors. The Board has a clear schedule of matters reserved to it and a clear scheme of delegation to the managing director, finance director and other members of the executive team. All matters of significance including those reserved to the Board are brought for discussion and approval to the Board at its meetings. The Board meets on an approximately six-weekly cycle, with periodic additional telephone meetings as business dictates. Attendance by members of the Board for the financial year ended 31 March 2022 is shown in the table below. Board members declare their interests annually and throughout the year as changes occur, and records are kept.

Covid-19

From March 2022, contingency plans and additional Covid mitigation measures implemented across all HIAL's 11 airports remained in place. The priority continued to be the protection of our passengers and colleagues, reducing the spread of the virus and facilitating the maintenance of the essential and lifeline air services for our communities.

During 2021/22 as restrictions were eased and a sense of normality returned, the focus shifted to support and recovery, and to help our airline partners resume schedules that were put on hold during the height of the pandemic.

Throughout the year we continued to monitor the range of measures in place to ensure they were adapted to meet the different Government rules and easing of restrictions and requirements.

The governance structure that ensured effective management of our Covid response and our recovery following the pandemic remains in place as of 31 March 2022.

The HIAL Board and Transport Scotland continued to receive regular updates on HIAL's COVID strategy and planning throughout the year.

Governance Statement

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

Audit Committee

The Board has established an Audit Committee with agreed terms of reference to advise it on the adequacy of risk management arrangements, internal control and governance matters, including compliance with the SPFM. The committee receives regular reports from internal and external auditors and oversees the corporate risk register brought to it by the executive team. It oversees compliance with legislation and regulation. The committee reports to the Board following each meeting, on risk and compliance matters. Attendance by members of the Audit Committee for the financial year ended 31 March 2022 is shown in the table below. During the year the audit committee was composed of three non-executive directors and was chaired by one of their number. The managing director and the finance director are invited to attend meetings.

Name	Audit Committee			HIAL Board			DAL Board		
	Position	Held	Attended	Position	Held	Attended	Position	Held	Attended
Lorna Jack	N/A	N/A	N/A	Chair	12	12	Chair	6	6
Jim McLaughlin	NXD Member left 28/2/22	5	3	NXD Member	10	10	NXD Member left 28/2/22	5	4
Inglis Lyon	In Attendance	6	6	Member MD	12	12	Member MD	6	6
Johanna Wallace	In Attendance	6	6	Member FD	12	12	Member FD	6	6
Eric Hollanders	NXD Member from 08/12/21	2	2	NXD Member	12	12	NXD Member	6	6
Wilhelmina Strachan	Chair	6	6	NXD Member	12	11	NXD Member	6	5
Isabel Todenhofer	NXD Member from 28/02/22	1	1	NXD Member	12	12	NXD Member	6	6
Chris Holliday	NXD Member to 08/12/21	4	4	NXD Member	12	12	NXD Member	6	6
Lynne Clow	N/A	N/A	N/A	NXD Member joined 1/3/22	2	2	NXD Member joined 1/3/22	1	1
Greg Colgan	N/A	N/A	N/A	N/A	N/A	N/A	NXD Member	6	6

Governance Statement

Internal audit

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

During 2021/22 internal audits were completed on seven areas of the organisation, which are detailed in the table below. A 'weak' conclusion followed a review of procurement arrangements and several high-grade recommendations from the review of the Air Traffic Management System.

Steps are in place to address the points raised on procurement arrangements which has included recruitment of more staff to the procurement team. The Air Traffic Management Project has since ceased and the 2021/22 follow up review has now taken place.

Completed Internal Audits 2021/22		
Area	**Status**	**Overall Conclusion**
Procurement	Complete	Weak
Fraud Awareness and Controls	Complete	Substantial
Capital Accounting	Complete	Strong
Business Continuity Planning	Complete	Strong
Risk Management	Complete	Strong
Data Protection/Information Governance	Complete	Substantial
Special Review – ATMS Governance and Financial Management	Complete	Weak

Postponed Internal Audits 2021/22		
Area	**Status**	**Reason**
Follow-up review	Postponed	Information not received by HIAL due to staff availability, was conducted in August 2022
Business Development	Postponed	Due to staff availability
Review of New Finance system and Airport Management System	Postponed	Due to delay in going live with systems, replaced by Data Protection/Information Governance review
ATMS – Project Management	Postponed	Days used for the special review on the ATMS Governance and Financial Management
ATMS – Contract Management	Postponed	Days used for the special review on the ATMS Governance and Financial Management

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 2022 and up to the date of approval of the annual report and accounts.

Governance Statement

Risk and control framework

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

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

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

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

Safety management systems

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

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

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.

Inglis Lyon
Managing Director
9 November 2022

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with UK adopted international accounting standards (UK adopted IAS). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the Group for that period.

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

In preparing these financial statements the directors are required to:

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

Stornoway Airport

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 2022 which comprise the Group Income Statement, the Group and Company Statement of Comprehensive Income, the Group and Company Statement of Changes in Equity, the Group and Company Balance Sheet, the Group and Company Statement of Cash Flows, and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2022, 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 United Kingdom;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the United Kingdom and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

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

Other information

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

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

Responsibilities of directors

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

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

Auditor’s responsibilities for the audit of the financial statements

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

A further descriptions of our responsibilities is available on the FRC’s website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditors report.

Dundee Airport

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

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

Irregularities, including fraud, are instances of no-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above and on the Financial Reporting Council's website, to detect material misstatements in respect of irregularities, including fraud.

We obtain and update our understanding of the entity, its activities, its control environment, and likely future developments, including in relation to the legal and regulatory framework applicable and how the entity is complying with that framework. Based on this understanding, we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsible to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This includes consideration of the risk of acts be the entity that were contrary to applicable laws and regulations, including fraud.

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

- Enquiry of management and those charged with governance around actual and potential litigation and claims as well as actual, suspected and alleged fraud;
- Reviewing minutes of meetings of those charged with governance;
- Assessing the extent of compliance with the laws and regulations considered to have a direct material effect on the financial statements or the operations of the entity through enquiry and inspection;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Performing audit work over the risk of management bias and override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rational of significant transactions outside the normal course of business and reviewing accounting estimates for indicators of potential bias.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Group Income Statement

FOR THE YEAR ENDED 31 MARCH 2022

	Notes	2022 £000	2021 £000
Revenue	3	**17,788**	8,999
Cost of sales		**(52,273)**	(41,665)
Gross loss		**(34,485)**	(32,666)
Administrative expenses		**(7,196)**	(6,633)
Other income	4	**39,975**	37,929
Other gains/(losses)	6	**97**	(127)
Operating loss	5	**(1,609)**	(1,498)
Share of operating profit/(loss) in joint venture	12	**(18)**	62
Finance costs	8	**(110)**	(7)
Other finance cost – pensions	21	**(1,620)**	(1,146)
Loss from continuing operations before tax		**(3,357)**	(2,589)
Tax charge	9	**-**	-
Loss from continuing operations		**(3,357)**	(2,589)

All activities relate to continuing operations.

Group Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2022

	Notes	2022 £000	2021 £000
Loss for the year		**(3,357)**	(2,589)
Other comprehensive income:			
Actuarial gains/(losses)	21	**30,649**	(31,635)
Tax on items relating to components of other comprehensive income		-	-
Other comprehensive income/(expense) for the year, net of tax		**30,649**	(31,635)
Total comprehensive income/(expense) for the year		**27,292**	(34,224)

Company Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2022

	Notes	2022 £000	2021 £000
(Loss)/profit for the year		**(1,108)**	124
Other comprehensive income:			
Actuarial gains/(losses)	21	**29,333**	(30,865)
Tax on items relating to components of other comprehensive income		**-**	-
Other comprehensive income/(expense) for the year, net of tax		**29,333**	(30,865)
Total comprehensive income/(expense) for the year		**28,225**	(30,741)

Group Statement of changes in Equity

FOR THE YEAR ENDED 31 MARCH 2022

	Equity share capital £000	Retained earnings £000	Total equity £000
At 1 April 2020	50	(28,965)	(28,915)
(Loss) in year attributable to equity holders	-	(2,589)	(2,589)
Other comprehensive income	-	(31,635)	(31,635)
At 31 March 2021	50	(63,189)	(63,139)

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

Company Statement of changes in Equity

FOR THE YEAR ENDED 31 MARCH 2022

	Equity share capital £000	Retained earnings £000	Total equity £000
At 1 April 2020	50	(25,913)	(25,863)
Gain in year attributable to equity holders	-	124	124
Other comprehensive income	-	(30,865)	(30,865)
At 31 March 2021	50	(56,655)	(56,605)

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

Group Balance Sheet

AS AT 31 MARCH 2022	Notes	2022	Restated 2021
ASSETS		£000	£000
Non-current assets			
Property, plant and equipment	10	**162,908**	135,864
Investment properties	11	**718**	727
Investments accounted for using the equity method	12	**(41)**	(22)
Intangible assets	13	**55**	55
		163,640	136,624
Current assets			
Trade and other receivables	14	**8,262**	8,322
Inventories	15	**149**	175
Cash and cash equivalents	16	**6,661**	3,589
		15,072	12,086
Total assets		**178,712**	148,710
LIABILITIES			
Current liabilities			
Trade and other payables	17	**(16,654)**	(15,743)
		(16,654)	(15,743)
Non-current liabilities			
Loan	18	**(4,074)**	(4,127)
Defined benefit pension scheme deficit	21	**(37,351)**	(62,048)
Deferred subsidies	19	**(156,480)**	(129,932)
		(197,905)	(196,106)
Total liabilities		**(214,560)**	(211,849)
NET LIABILITIES		**(35,847)**	(63,139)
EQUITY			
Ordinary shares	22	**50**	50
Retained earnings		**(35,897)**	(63,189)
		(35,847)	(63,139)

The financial statements were authorised for issue by the Board of Directors on 9 November 2022 and signed on its behalf by:

Lorna Jack, MA CA
Chair

Inglis Lyon, BSc (Hons) LLB
Managing Director

Company Balance Sheet

AS AT 31 MARCH 2022

ASSETS	Notes	2022 £000	2021 £000
Non-current assets			
Property, plant and equipment	10	**153,074**	126,255
Investment properties	11	**718**	727
Investments	12	**1,998**	1,998
		155,790	128,979
Current assets			
Trade and other receivables	14	**11,568**	9,888
Inventories	15	**116**	162
Cash and cash equivalents	16	**6,360**	3,162
		18,044	13,212
Total assets		**173,834**	142,191

LIABILITIES	Notes	2022 £000	2021 £000
Current liabilities			
Trade and other payables	17	**(15,997)**	(14,939)
		(15,997)	(14,939)
Non-current liabilities			
Loan	18	**(4,074)**	(4,127)
Defined benefit pension scheme deficit	21	**(35,541)**	(59,459)
Deferred subsidies	19	**(146,602)**	(120,271)
		(186,217)	(183,857)
Total liabilities		**(202,214)**	(198,796)
NET LIABILITIES		**(28,380)**	(56,605)

EQUITY	Notes	2022 £000	2021 £000
Ordinary shares	22	**50**	50
Retained earnings		**(28,430)**	(56,655)
		(28,380)	(56,605)

The financial statements were authorised for issue by the Board of Directors on 9 November 2022 and signed on its behalf by:

Lorna Jack, MA, CA
Chair

Inglis Lyon, BSc (Hons) LLB
Managing Director

Group Cash Flow Statement

AS AT 31 MARCH 2022

	Notes	2022 £000	2021 £000
Cash flows from operating activities			
Cash generated by operations	23	**3,754**	3,107
Purchase of property, plant and equipment		**(37,422)**	(23,797)
Proceeds from sale of property, plant and equipment		**468**	127
Receipt of capital subsidy		**36,198**	20,246
Tax paid		**-**	-
Net cash flow from operating activities		**2,998**	(317)

Cash flows from investing activities		
Increase in loan to joint venture	**(25)**	(26)
Net cash flow from investing activities	**(25)**	(26)

Cash flows from financing activities		
Loan received	**1,346**	715
Loan repaid	**(1,137)**	-
Finance lease repaid	**-**	(96)
Interest (paid)/received	**(110)**	(7)
Net cash flow from financing activities	**99**	612

Increase in cash and cash equivalents	**3,071**	269
Cash and cash equivalents at the beginning of the year	**3,589**	3,320
Cash and cash equivalents at the end of the year	**6,661**	3,589

Company Cash Flow Statement

AS AT 31 MARCH 2022

	Notes	2022 £000	2021 £000
Cash flows from operating activities			
Cash generated by operations	23	**3,778**	1,137
Purchase of property, plant and equipment		**(35,918)**	(22,405)
Proceeds from sale of property, plant and equipment		**115**	47
Receipt of capital subsidy		**35,154**	18,870
Tax paid		**-**	-
Net cash flow from operating activities		**3,129**	(2,351)
Cash flows from investing activities			
Increase in loan to joint venture		**(25)**	(26)
Net cash flow from investing activities		**(25)**	(26)
Cash flows from financing activities			
Loan received		**1,339**	2,360
Loan repaid		**(1,137)**	-
Finance lease repaid		**-**	-
Interest paid		**(108)**	(7)
Net cash flow from financing activities		**94**	2,353
Increase in cash and cash equivalents		**3,198**	(24)
Cash and cash equivalents at the beginning of the year		**3,162**	3,186
Cash and cash equivalents at the end of the year		**6,360**	3,162

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 2022 were authorised for issue by the board of directors on 9th November 2022 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 UK adopted International accounting standards (UK-adopted IAS). As a result of the UK leaving the EU, the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/685) require all companies with accounting periods beginning on or after 1 January 2021 to apply UK-adopted IAS. In the previous year, the company applied International Financial Reporting Standards as adopted in the European Union (EU-adopted IFRS). Prior year comparatives have not been restated for this change. On 1 January 2021 UK-adopted IAS and EU-adopted IFRS were identical. Since this date timing differences in endorsement have arisen, however no amendments would be required to these financial statements if they were to be prepared in accordance with EU-adopted IFRS as at 31 March 2022.

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

2.1 Accounting policies

(a) Basis of preparation

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

(b) Going concern

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

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

As a result of the IAS 19 pension deficit, the Group has net liabilities of £35.847m and the Company has net liabilities of £28.380m at 31 March 2022. This net liability position results from bringing a long-term pension liability onto the balance sheet and does not reflect the Group or Company's ability to continue as a going concern or to meet its liabilities as they fall due. Accordingly, the Group and the Company continue to adopt the going concern basis in preparing their annual financial statements.

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 2022.

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

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

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

2.3. Significant accounting policies

(a) Revenue recognition

Revenue is recognised in accordance with IFRS 15 Revenue From Contracts with Customers and comprises amounts received and receivable in respect of airport services provided in the UK. Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

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

Notes to the Financial Statements

(b) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with.

Government subsidies are received from Scottish Government in accordance with Section 34 of the Civil Aviation Act 1982 along with other revenue and capital grants. Government grants in respect of capital expenditure are credited to a deferred income account and are released to the Income Statement by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to other income so as to match them with the expenditure to which they relate.

(c) Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered or paid to the taxation authorities, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future, and
- deferred income tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, income tax is recognised in the Income Statement.

(d) Pensions

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

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

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

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

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

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

Notes to the Financial Statements

(e) Property, plant and equipment

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

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

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

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

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

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

(f) Business combinations

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

(g) Investments in joint ventures

Entities in which the Group holds 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.

(h) Investment properties

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

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

Transfers are made to or from investment property only when there is a change in use. For transfers from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of the change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of the change in use.

(i) Intangible assets

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

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

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

(j) Impairment of non-financial assets

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

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

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

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

(k) Cash and short-term deposits

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

(l) Provisions

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

(m) Inventories

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

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

(n) Trade and other receivables

Trade receivables, which generally have 30-day credit terms, are recognised, and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Notes to the Financial Statements

(o) Financial assets

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

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

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

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

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

Loans and receivables

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

(p) Financial asset impairment review

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. The Group has trade receivables and short-term loan receivables. The assets are reviewed for impairment as follows:

Assets carried at amortised cost

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

2.4. Judgements and key sources of estimation uncertainty

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

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

Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the Income Statement. The Group engaged independent valuation specialists to determine the fair value as at 31 March 2022. For the investment properties the valuer used a valuation technique based on an adapted discounted cash flow model as there is a lack of comparable market data because of the nature of the properties.

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

Defined benefit pension schemes

The cost of the defined benefit pension schemes is determined using actuarial valuations. The actuarial valuations involved making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in note 21.

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

The following standards and interpretations are mandatory for the first time for the year ended 31 March 2022 but are either not applicable or have no material impact on the Group's financial statements.

Title	Implementation	Effect on Group
COVID-19 Related Rent Concessions (Amendment to IFRS16)	Annual period beginning on or after 1 June 2020	There is no material impact on the financial statements.
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)	Annual periods beginning on or after 1 January 2021	There is no material impact on the financial statements.

Notes to the Financial Statements

2.6. Changes in accounting policy and disclosures – standards issued but not yet effective

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

Title	Implementation	Effect on Group
Onerous Contracts – Cost of Fulfilling a Contract (Amendment to IAS 37)	Annual periods beginning on or after 1 January 2022	The Board does not anticipate any impact on the financial statements.
Annual Improvements to IFRS Standards 2018 - 2020	Annual periods beginning on or after 1 January 2022	The Board does not anticipate any impact on the financial statements.
Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16)	Annual periods beginning on or after 1 January 2022	The Board does not anticipate any impact on the financial statements.
Reference to the Conceptual Framework (Amendments to IFRS 3)	Annual periods beginning on or after 1 January 2022	The Board does not anticipate any impact on the financial statements.
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	Annual periods beginning on or after 1 January 2023*	The Board does not anticipate any impact on the financial statements.
IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts	Annual periods beginning on or after 1 January 2023*	The Board does not anticipate any impact on the financial statements.
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practise Statement 2)	Annual periods beginning on or after 1 January 2023*	A full impact assessment will be undertaken in due course.
Definition of Accounting Estimate (Amendments to IAS 8)	Annual periods beginning on or after 1 January 2023*	A full impact assessment will be undertaken in due course.
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction_ Amendments to IAS16 Income Taxes	Annual periods beginning on or after 1 January 2023*	A full impact assessment will be undertaken in due course.

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

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

Notes to the Financial Statements

3. Revenue

	2022 £000	2021 £000
Revenue recognised in the Income Statement is analysed as follows:		
Revenue from airport charges	**13,745**	6,920
Concession revenues	**1,714**	317
Rental income	**2,329**	1,762
Total revenue	**17,788**	8,999

4. Other income

	2022 £000	2021 £000
Government grants, other grants & services rendered	**39,975**	37,929
	39,975	37,929

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 2022 and 2021 was as follows:

Revenue		2022 £000	2021 £000
Scottish Government	Operating subsidy	**39,668**	36,600
Scottish Government	Air Discount Scheme	**135**	125
Miscellaneous	Miscellaneous	**172**	1,204
		39,975	37,929
Capital			
Scottish Government and other bodies	Operating subsidy and grants	**36,198**	20,246
		76,173	58,175

Notes to the Financial Statements

5. Group operating loss

This is stated after charging/(crediting):	2022 £000	2021 £000
Increase in fair value of investment properties	**(19)**	(4)
Depreciation of property, plant, and equipment	**9,813**	8,816
Deferred subsidies release	**(9,588)**	(8,567)
Operating lease payments	**-**	-
Auditor's remuneration – audit services	**45**	39

6. Other gains & (losses)

	2022 £000	2021 £000
Gain on disposals of property, plant, and equipment	**106**	-
Decrease in fair value of investment properties	**(9)**	(127)
	97	(127)

7. Employee benefit expense

	2022 £000	2021 £000
Wages and salaries	**25,857**	23,553
Social security costs	**2,734**	2,486
Pension costs	**5,404**	5,908
Other staff costs	**885**	721
	34,880	32,668

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

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

	2022 No.	Re-stated 2021 No. Re-class
Administration	**35**	32
Air Discount Support (ADS)	**4**	4
Airport fire service	**189**	190
Apron operations	**1**	1
Air traffic services	**88**	89
Air Traffic Management Services (ATMS)	**31**	16
Engineering	**17**	17
Head Office	**75**	78
Management	**29**	26
Security	**226**	230
	695	683

7. Employee benefit expense (continued)

Directors' remuneration	**2022 £000**	2021 £000
Emoluments	**279**	249
Pension contributions	**60**	30

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

	2022 No.	2021 No.
£0 to £5,000	**-**	-
£5,001 to £10,000	**5**	5
£10,001 to £20,000	**-**	-
£20,001 to £60,000	**1**	3
£60,001 to £145,000	**1**	-
£145,001 to £155,000	**-**	1
£155,001 to £165,000	**1**	-

The emoluments of the highest paid director were £123,018 (2021: £122,640) excluding pension contributions of £32,444 (2021: £30,330).

The emoluments of the Chair were £23,328 (2021: £23,184).

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

8. Finance (costs)/revenue

	2022 £000	2021 £000
Bank interest receivable/(payable)	**(9)**	4
Other finance (loss)/income	**-**	-
Interest Right Of Use Asset	**(101)**	(11)
	(110)	(7)

Notes to the Financial Statements

9. Taxation

(a) Tax charged in the Income Statement

	2022	2021
	£000	£000
Current income tax:		
Current income tax	**-**	-
Amounts overprovided in previous years	**-**	-
Total current income tax	**-**	-
Deferred tax:		
Origination and reversal of temporary differences	**-**	-
Effect of decreased tax rate on closing liability	**-**	-
Total deferred tax	**-**	-
Tax expense in the Income Statement		
Income tax on continuing operations	**-**	-
The tax expense in the Income Statement is disclosed as follows:	**-**	-

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

	2022	2021
	£000	£000
Tax on defined benefit pension scheme	**-**	-
Total current income tax	**-**	-
Deferred tax:		
Deferred tax on defined benefit pension scheme	**-**	-
Total deferred tax	**-**	-
Tax expense in Statement of Other Comprehensive Income	**-**	-

9. Taxation (continued)

(c) Reconciliation of the total tax charge

The tax charge in the Income Statement for the year is higher than the standard rate of corporation tax in the United Kingdom of 19% (2020: 19%). The differences are reconciled below:

	2022 £000	2021 £000
Accounting (loss) before income tax	**(3,357)**	(2,589)
Accounting (loss) multiplied by the UK standard rate of tax of 19% (2019: 19%)	**(638)**	(491)
Expenses not deductible for tax purposes	**33**	38
Tax losses carried forward	**325**	487
Tax losses utilised	**(789)**	(481)
Government grants exempt from tax	**(1,767)**	(1,576)
Pension provisions not tax deductible	**1,058**	(98)
Adjustment in respect of prior periods	**-**	-
Adjustment in respect of IFRS	**70**	527
Interest on redeemable shares	**-**	-
Adjustment relating to sale of assets	**(19)**	24
Adjustment relating to tax on UK GAAP	**-**	-
Net depreciation in excess of capital allowances	**1,723**	1,555
Chargeable gains	**1**	27
Share of JV not tax deductible	**3**	(12)
Deferred tax movement per note 9 (d)	**-**	-
Total tax charge reported in the Income Statement	**-**	-

(d) Deferred tax

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

	Balance Sheet		Income Statement	
	2022 £000	2021 £000	2022 £000	2021 £000
Deferred tax liability				
Accelerated capital allowances	**8,051**	4,870	**3,181**	54
Revaluations of investment properties	**203**	151	**52**	24
	8,254	5,021	**3,233**	78
Deferred tax asset				
Accelerated capital allowances	**-**	-	**-**	-
Pensions	**9,338**	11,789	**(2,451)**	6,441
Tax losses carried forward	**2,163**	2,108	**55**	(33)
Deferred revenue	**7,622**	4,566	**3,056**	(56)
Deferred tax not recognised	**(10,869)**	(13,442)	**2,573**	(6,430)
	8,254	5,021	**3,233**	(78)
Disclosed on the Group and Company Balance Sheet and Income Statement				
Deferred tax (liability)	**-**	-	**-**	-

Notes to the Financial Statements

9 (d) Deferred tax (continued)

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

10. Property, plant and equipment

Group Restated	Land and buildings freehold £000	Plant and equipment £000	Construction in progress £000	Total £000
Cost:				
At 1 April 2020 (restated)	61,721	174,096	10,905	246,722
Additions	809	2,869	20,119	23,797
Disposals	-	(634)	-	(634)
Transfers	2,053	4,090	(6,143)	-
Transfers - prior year adjustment	-	(1,378)	1,378	-
At 31 March 2021 (restated)	64,583	179,043	26,259	269,885
Depreciation and impairment:				
At 1 April 2020 (restated)	(38,344)	(87,453)	-	(125,797)
Provided during the year	(2,537)	(6,179)	-	(8,716)
Provided during the year on right of use asset	(43)	(57)	-	(100)
Disposals	-	592	-	592
At 31 March 2021	(40,924)	(93,097)	-	(134,021)
Net book value:				
At 31 March 2021 (restated)	23,659	85,946	26,259	135,864
At 31 March 2020	23,377	86,643	10,905	120,925

10. Property, plant and equipment (continued)

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

Company **Restated**	**Land and buildings freehold** **£000**	**Plant and equipment** **£000**	**Construction in progress** **£000**	**Total** **£000**
Cost:				
At 1 April 2020	57,865	153,443	10,870	222,178
Additions	774	2,785	18,846	22,405
Disposals	-	(602)	-	(602)
Transfers	2,029	3,381	(5,410)	-
Transfers - prior year adjustment	-	(1,378)	1,378	-
At 31 March 2021 (restated)	60,668	157,629	25,684	243,981
Depreciation and impairment:				
At 1 April 2020	(33,309)	(76,840)	-	(110,149)
Provided during the year	(1,731)	(6,408)	-	(8,139)
Disposals	-	562	-	562
At 31 March 2021	(35,040)	(82,686)	-	(117,726)
Net book value:				
At 31 March 2021	25,628	74,943	25,684	126,255
At 31 March 2020	24,556	76,603	10,870	112,029

10. Property, plant and equipment (continued)

Company

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

Restatement due to a duplicate transfer from construction in progress to plant and equipment. This has been corrected in the accounts.

11. Investment property

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

	Group 2022 £000	**Company 2022 £000**	Group 2021 £000	Company 2021 £000
Valuation at 1 April	**727**	**727**	854	854
Additions	**64**	**64**	-	-
Disposals	**-**	**-**	(131)	(131)
Fair value adjustment	**(73)**	**(73)**	4	4
Valuation as at 31 March	**718**	**718**	727	727

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 2022, 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:

	2022	2021
Yields (%)	**8.3% - 22.3%**	6.36% - 24.56%

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:

	2022 £000	2021 £000
Share of the joint venture's balance sheet:		
Non-current assets	**(41)**	(22)
Current assets	**-**	-
Current liabilities	**-**	-
Non-current liabilities	**-**	-
Share of other reserves	**-**	-
Share of net (liabilities)/assets	**(41)**	(22)

	2022 £000	2021 £000
Share of the joint venture's results:		
Revenue	**23**	154
Net operating expenses	**(62)**	(78)
Loss before taxation	**(39)**	76
Tax expense	**21**	(13)
Profit/(Loss) after taxation	**(18)**	62

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

(b) Details of Group undertakings

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital at 31 March 2022 and 2021 are as follows:

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

Notes to the Financial Statements

12. Investments (continued)

Company

	Subsidiary undertakings £000	Joint ventures £000	Total £000
Cost:			
At 1 April 2020	10	1,988	1,998
Acquisitions	-	-	-
Additions	-	-	-
Disposals	-	-	-
At 31 March 2021	10	1,988	1,998
Amortisation and impairment:			
At 1 April 2020	-	-	-
Amortisation during the year	-	-	-
Impairment charges	-	-	-
Disposals	-	-	-
At 31 March 2021	-	-	-
Net book value:			
At 31 March 2021	10	1,988	1,998
At 31 March 2020	10	1,988	1,998

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

Notes to the Financial Statements

13. Intangible fixed assets

Group

	Total £000
Cost:	
At 1 April 2020	540
Acquisitions	-
Additions	-
Disposals	-
At 31 March 2020	540
Amortisation and impairment:	
At 1 April 2020	(485)
Amortisation during the year	-
Disposals	-
At 31 March 2021	(485)
Net book value:	
At 31 March 2021	55
At 31 March 2020	55
Cost:	
At 1 April 2021	540
Acquisitions	-
Additions	-
Disposals	-
At 31 March 2022	**540**
Amortisation and impairment:	
At 1 April 2021	(485)
Amortisation during the year	-
Impairment charges	-
At 31 March 2022	**(485)**
Net book value:	
At 31 March 2022	**55**
At 31 March 2021	55

Intangibles relate to leasing contracts acquired as part of the acquisition of Dundee Airport Limited. This intangible asset was grant funded. The asset was initially recorded at it's fair value of £170,500 and subsequently measured under the cost model. The assets are being amortised over the periods over which the contractual cash flows are expected to arise. Amortisation is included within administrative expenses. The intangible assets have a useful life of 50 years at 31 March 2022.

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

Intangibles – 7 to 60 years in relation to the lease contracts

Notes to the Financial Statements

14. Trade and other receivables

Group

	2022 £000	Re-stated 2021 £000
Trade receivables	**3,413**	2,123
Less: provision for impairment of receivables	**(73)**	(52)
Trade receivables net of impairment	**3,340**	1,771
Receivables from joint ventures	**1,911**	2,036
Prepayments and other accrued income	**1,132**	786
Other receivables	**1,879**	3,429
	8,262	8,322

Out of the carrying amount of trade receivables of £3,413,000 above; £2,789,872 relates to 4 major customers.

Company

	2022 £000	Re-stated 2021 £000
Trade receivables	**3,220**	2,096
Less: provision for impairment of receivables	**(66)**	(51)
Trade receivables net of impairment	**3,154**	1,745
Receivables from joint ventures	**1,911**	**2,036**
Prepayments and other accrued income	**1,023**	584
Other receivables	**5,480**	**5,223**
	11,568	9,888

Out of the carrying amount of trade receivables of £2,704,000 above, £2,643,882 relates to four major customers.

15. Inventories

	Group 2022 £000	Company 2022 £000	Group 2021 £000	Company 2021 £000
Aviation fuel	**33**	**2**	13	-
Spares	**116**	**114**	162	162
	149	**116**	175	162

Notes to the Financial Statements

16. Cash and cash equivalents

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

Group	**2022**	2021
	£000	£000
Cash at bank	**6,661**	3,589
Short term deposits	**-**	-
	6,661	3,589

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

Company	**2022**	2021
	£000	£000
Cash at bank	**6,360**	3,162
Short term deposits	**-**	-
	6,360	3,162

17. Trade and other payables

Group	**2022**	2021
	£000	£000
Loans (note 18)	**1,983**	1,721
Trade payables	**3,670**	3,601
IFRS lease creditor	**409**	506
Other creditors and accruals	**10,592**	9,915
	16,654	15,743

Company	**2022**	2021
	£000	£000
Loans (note 18)	**1,901**	1,646
Trade payables	**3,556**	3,508
Amounts owed to other Group companies	**379**	95
IFRS lease creditor	**409**	506
Other creditors and accruals	**9,752**	9,184
	15,997	14,939

Notes to the Financial Statements

18. Loans

Group

	2022 £000	2021 £000
Unsecured loans wholly repayable within five years,		
repayable in half-yearly instalments	**6,057**	5,847
Less repayable within twelve months (note 17)	**(1,983)**	(1,721)
	4,074	4,127

Instalments on the loans included above are repayable as follows:		
between one and two years	**1,784**	1,659
between two and five years	**2,290**	2,467
after five years	**-**	-
	4,074	4,127

Company

	2022 £000	2021 £000
Unsecured loans wholly repayable within five years,		
repayable in half-yearly instalments	**5,975**	5,773
Less repayable within twelve months (note 17)	**(1,901)**	(1,646)
	4,074	4,127

Instalments on the loans included above are repayable as follows:		
between one and two years	**1,784**	1,659
between two and five years	**2,290**	2,468
after five years	**-**	-
	4,074	4,127

At 31 March 2022 the group and company had 9 loans outstanding (2021: 7). The loans are repayable to the Scottish Ministers at an interest rate between 1.11% and 2.00%. The loans are repayable over 4 and 5 years, by half yearly instalments. There was a payment holiday in 2020/21 due to COVID-19 assistance.

19. Deferred subsidies

Group

	2022 £000	2021 £000
Balance at 1 April	**129,932**	118,294
Subsidies receivable	**36,198**	20,246
Release to Income Statement	**(9,588)**	(8,567)
Release against asset disposals	**(62)**	(42)
Balance at 31 March	**156,480**	129,932

19. Deferred subsidies (continued)

Company

	2022 £000	2021 £000
Balance at 1 April	**120,271**	109,328
Subsidies receivable	**35,241**	18,870
Release to Income Statement	**(8,848)**	(7,888)
Release against asset disposals	**(62)**	(39)
Balance at 31 March	**146,602**	120,271

20. Financial instruments

Credit risk

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

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

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2022 and 31 March 2021 based on contractual undiscounted payments:

	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Trade and other payables						
At 31 March 2022	**-**	**14,671**	**-**	**-**	**-**	**14,671**
At 31 March 2021	-	14,022	-	-	-	14,022
Borrowings						
At 31 March 2022	**-**	**-**	**1,983**	**4,074**	**-**	**6,057**
At 31 March 2021	-	-	1,721	4,127	-	5,847

Notes to the Financial Statements

20. Financial instruments (continued)

Fair values of financial assets and financial liabilities

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

	Carrying amount		Fair value	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Financial assets				
Loans and receivables	**-**	-	**-**	-
Trade and other receivables	**5,901**	5,987	**6,351**	5,987
Loans receivable	**1,911**	2,336	**2,361**	2,336
Financial liabilities				
Trade and other payables	**14,671**	14,022	**14,671**	14,022
Borrowings	**6,057**	5,847	**6,057**	5,847

The fair values of Loans and receivables and Loans receivable have been calculated by discounting the expected future cash flows at prevailing market interest rates for instruments with substantially the same terms and characteristics.

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

21. Pensions

The Group operates for its employees two final salary defined benefit pension schemes – the Highlands and Islands Airports Pension Scheme (HPS) and the Tayside Superannuation Fund (TSF) and one defined contribution scheme. Group member numbers of each fund at 31 March 2022 were 608 (2021: 587) and 68 (2021: 75). Both schemes are operated and located in the United Kingdom and require contributions to be made to separately administered funds.

The People's Pension members at 31 March 2022 for the Group were 280 (2021: 266) and for the Company were 62 (2021: 49). This scheme is monitored by HIAL management through the actuaries.

The values of the scheme obligations have been determined by a qualified actuary based on the actuarial valuation as at 31 December 2021 for the HPS and the valuation as at 31 March 2022 for the TSF, both updated to the balance sheet date.

The TSF is disclosed in the accounts of the subsidiary, Dundee Airport Limited (DAL).

The HPS is disclosed in the accounts of the Company, with both schemes being disclosed in the Group accounts.

21. Pensions (continued)

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

At 31 March 2021	**HPS**	**TSF**	Total
	£000	**£000**	£000
Scheme assets at fair value			
Equities	45,844	8,520	54,364
Gilts	-	407	407
Other bonds	25,159	1,506	26,665
Property	11,798	1,118	12,916
Diversified growth	34,660	-	34,660
Other	26,950	33	26,983
Cash	2,029	242	2,271
Fair value of scheme assets	146,440	11,826	158,266
Present value of scheme liabilities	(205,899)	(14,415)	(220,314)
Defined benefit pension scheme deficit	**(59,459)**	(2,589)	(62,048)

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

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 2021	**HPS**	**TSF**	Total
	£000	**£000**	£000
Recognised in Income Statement			
Current service cost	4,856	459	5,315
Past service cost	5	-	5
Recognised in arriving at operating loss	4,861	459	5,320
Administration cost	525	2	527
Interest cost on scheme assets	(2,924)	(211)	(3,135)
Interest cost on obligations	3,509	245	3,754
Other finance cost	1,110	36	1,146

Notes to the Financial Statements

21. Pensions (continued)

	HPS £000	TSF £000	Total £000
Taken to the Statement of Comprehensive Income			
Return on plan assets in excess of interest	18,936	2,790	21,726
Experience gain/(loss) on liabilities	-	363	363
Change in demographic assumptions	-	404	404
Change in financial assumptions	(49,801)	(4,012)	(53,813)
Other actuarial gain/(loss)		(315)	(315)
Actuarial gains recognised in the Statement of Comprehensive Income	(30,865)	(770)	(31,635)

Year ended 31 March 2022	HPS £000	TSF £000	Total £000
Recognised in Income Statement			
Current service cost	8,535	745	9,280
Past service cost	-	-	-
Recognised in arriving at operating loss	8,535	745	9,280
Administration cost	419	3	422
Interest cost on scheme assets	(2,954)	(244)	(3,198)
Interest cost on obligations	4,101	295	4,396
Other finance cost	1,566	54	1,620

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

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

	HPS £000	TSF £000	Total £000
Defined benefit obligation at 1 April 2020	151,478	10,413	161,891
Current service cost	4,856	459	5,315
Past service cost	5	-	-
Interest cost	3,509	245	3,754
Benefits paid	(4,702)	(57)	(4,759)
Contributions by scheme participants	952	110	1,062
Change in demographic assumptions	-	(404)	(404)
Experience (gain)/loss on liabilities	-	(363)	(363)
Change in financial assumptions	49,801	4,012	53,813
Defined benefit obligation at 31 March 2021	205,899	14,415	220,309

Notes to the Financial Statements

21. Pensions (continued)

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

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 2020	124,921	8,825	133,7463
Interest on scheme assets	2,924	211	3,135
Contributions by employer	3,929	264	4,193
Contributions by scheme participants	952	110	1,062
Benefits paid	(4,702)	(57)	(4,759)
Administration costs	(520)	(2)	(522)
Other actuarial gains	-	(315)	-
Return on plan assets less interest	18,936	2,790	21,726
Fair value of scheme assets at 31 March 2021	146,440	11,826	158,581

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

Notes to the Financial Statements

21. Pensions (continued)

The Group expects to contribute £5,062,000 to its defined benefit pension plans in 2022/23.

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 2022 (%)	2021 (%)	TSF 2022 (%)	2021 (%)
Main assumptions:				
Rate of salary increases	**3.35**	2.95	**4.15**	3.85
Rate of increase in pensions in payment*	**3.65**	3.25	**3.15**	2.85
Discount rate	**2.60**	2.00	**2.60**	2.05
RPI Inflation	**3.65**	3.25	**4.15**	3.85

*HPS only - The assumed rate of increase is 3.65% for RPI and 3.35% 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 SAPS S3PA tables have been used, adjusted by 105% for males and 100% for females (to reflect the particular characteristics of the scheme), and S3IA tables for pensioners who have retired due to ill-health. Future improvements in mortality rates are assumed to be in line with the CMI 2021 model, with a long-term rate of improvement of 1.25% and a 15% weight parameter for 2020 and 2021 data. The projection is made based on the individual year of birth of each member.

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

Sensitivities

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):

21. Pensions (continued)

Change in assumption

	Salary increased by 0.50% £000	Reduce discount rate by 0.50% £000	Increase inflation by 0.50% £000
Fair value of scheme assets	154,810	154,810	154,810
Present value of defined benefit obligation	(160,143)	(178,129)	(176,129)
Defined benefit pension scheme deficit	(5,333)	(23,319)	(21,319)

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	575	615	623	567
Present value of defined benefit obligation	14,101	14,801	15,043	13,874

The projected pension expense for the year ending 31 March 2023 is as follows:

	HPS £000	TSF £000	Total £000
Current service cost	7,191	595	**7,786**
Net interest in defined benefit liability	866	44	**910**
Administration expenses	419	3	**422**
Total	8,476	642	**9,118**

Notes to the Financial Statements

21. Pensions (continued)

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

	2022	2021	2020	2019	2018
	£000	£000	£000	£000	£000
HPS					
Fair value of scheme assets	**154,810**	146,440	124,921	129,996	123,590
Present value of defined benefit obligation	**(190,351)**	(205,899)	(151,478)	(158,056)	(146,606)
(Deficit)	**(35,541)**	(59,459)	(26,557)	(28,060)	(23,016)
Experience adjustment on plan liabilities	**-**	-	-	-	(639)
Experience adjustments on plan assets	**2,911**	18,936	(8,817)	1,797	924

	2022	2021	2020	2019	2018
	£000	£000	£000	£000	£000
TSF					
Fair value of scheme assets	**12,637**	11,826	8,825	10,015	8,679
Present value of defined benefit obligation	**(14,447)**	(14,415)	(10,413)	(12,433)	(10,195)
(Deficit)	**(1,810)**	(2,589)	(1,588)	(2,418)	(1,516)
Experience adjustment on plan liabilities	**-**	-	-	-	(325)
Experience adjustments on plan assets	**385**	2,790	(734)	184	405

22. Share capital

	Group and Company	
	2022	2021
	£000	£000
Authorised shares	**50**	50
Allotted, called up and fully paid ordinary shares of £1 each	**50**	50

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

23. Cash generated by/(used in) operations

Group	**2022**	2021
	£000	£000
Operating loss	**(1,609)**	(1,498)
Depreciation of property, plant and equipment	**9,813**	8,816
Decrease/(increase) in inventories	**26**	(129)
(Increase)/Decrease in trade and other receivables	**85**	(1,210)
Decrease in trade and other payables	**651**	4,483
Deferred subsidies released	**(9,650)**	(8,609)
Fair value movement on investment properties	**9**	127
Difference between pension contributions and charges	**4,332**	1,127
Gain on disposal of property, plant, and equipment	**97**	-
Cash (used in)/generated by operations	**3,754**	3,107

Notes to the Financial Statements

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

Company	2022 £000	2021 £000
Operating loss	**568**	1,240
Depreciation of property, plant, and equipment	**9,072**	8,139
Decrease/(increase) in inventories	**45**	(161)
(Increase)/Decrease in trade and other receivables	**(1,656)**	(3,061)
Decrease in trade and other payables	**802**	1,861
Deferred subsidies released	**(8,823)**	(7,927)
Fair value movement on investment properties	**9**	(4)
Difference between pension contributions and charges	**3,849**	927
Gain on disposal of property, plant and equipment	**(88)**	123
Cash (used in)/generated by operations	**3,778**	1,137

24. Lease Liabilities

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

As a Lessee

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

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

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

i. Right-of-use assets

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

ii. Lease liabilities

Lease liabilities included in the statement of financial position at 31 March 2022 are analysed as follows:

	2022 £000	2021 £000
Current	**36**	96
Non-current	**373**	410
	409	506

24. Lease Liabilities (continued)

The lease liability is secured on the related underlying assets. The undiscounted maturity analysis of the lease liability as at 31 March 2022 is as follows:

	2022 £000	2021 £000
Less than one year	**0**	107
One to five years	**36**	229
More than five years	**373**	216
Total undiscounted liabilities at 31 March 2022	**409**	552

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

Total cash outflows in respect of leasing liabilities in the year to 31 March 2022 is £107,670 and 31 March 2021 also £107,670.

The company has elected not to recognise right-of-use assets and lease liabilities for leases that are short-term and/or leases of low-value items.

The company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

25. Related party disclosure

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

	re-stated	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Related party					
Joint ventures:					
Inverness Airport Business Park Ltd	**2022**	**11**	**10**	**2,361**	**-**
	2021	-	30	2,336	-
In relation to key management personnel:					
Caledonian Maritime Assets Ltd	**2022**	**-**	**-**	**-**	**-**
	2021	-	32	-	-
The Law Society of Scotland	**2022**	**-**	**19**	**-**	**-**
	2021	-	21	-	-
Energy Aviation Services Ltd	**2022**	**-**	**16**	**-**	**7**
	2021	-	17	-	9
Intercompany Balances					
Dundee Airport Limited	**2022**	**652**	**-**	**3,602**	**-**
	2021 restated	646	-	1,880	-
Airport Management Services Limited	**2022**	**293**	**7,729**	**-**	**379**
	2021	235	6,452	-	95

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

25. Related party disclosure (continued)

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

Controlling party

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

26. Commitments and contingencies

Capital Commitments

At 31 March 2022, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £3,574,000 for the Group (2021: £10,739,000) and £3,567,000 for the Company (2021: £10,739,000).

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 2022. The risk of default by this joint venture is considered low, and as such the initial fair value of this guarantee has been assessed as £nil.

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

27. Capital management

The primary objective of the Group's capital management is to ensure that it supports the operation of the business and maximises shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2021 and 31 March 2022.

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

28. Prior Year Adjustment

An adjustment to Construction in Progress in 2021 of £1.378m has been made to account for an understated balance in that year. A Plant and Machinery asset had been made live in error and this has been resolved.

29. Events after the reporting period

Events after the reporting period represent those events which occur between the end of the reporting period (i.e., 31 March 2022) and the date when the Annual Report and Accounts are authorised for issue. Adjusting events are those providing evidence of conditions existing at the end of the reporting period, and require the financial statements to be adjusted, whereas non-adjusting events are indicative of conditions that arise after the reporting period. Events which occur after the date of authorisation for issue are not reflected in these accounts.

In August 2022, the Board decided to formally wind up the Air Traffic Management Strategy (ATMS) programme following publication of the Scottish Government's Resource Spending Review and the indicative budget allocations that the Group expects over the forthcoming Spending Review period. The decision to wind up the ATMS programme is part of a range of measures that will reduce the Group's overall expenditure in response to the challenging fiscal position it faces in the next three to four years. No adjustment has been made in these accounts to reflect this decision.

Islay Airport Fire Appliance

ANNUAL REPORT AND ACCOUNTS TO 31 MARCH 2022

Company Number
SC097647

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Head Office
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Inverness
IV2 7JB

Auditor
Azets Audit Services

Solicitors
Addleshaw Goddard LLP

Actuaries
Barnett Waddingham LLP

Bankers
Royal Bank of Scotland

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

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