

Annual Report & Financial Statement



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

1 April 2018 - 31 March 2019

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

CONTENTS

Page

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

**HIGHLANDS AND ISLANDS AIRPORTS LIMITED
CORPORATE INFORMATION**

Directors

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

Chairman
Managing Director
Finance Director

Company Secretary

Inglis Lyon

Registered Office

Head Office
Inverness Airport
Inverness
IV2 7JB

Registered in Scotland Number SC097647

Auditor

Scott Moncrieff
Exchange Place 3
Sempie Street
Edinburgh
EH3 8BL

Actuaries

Barnett Waddingham LLP
163 West George Street
Glasgow
G2 2JJ

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

WHO WE ARE

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

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

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

Our core activities are:

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

Our mission:

To create social benefit & economic prosperity by building Scotland's regional airport network of the future.

Our goals are:

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

Supporting Scotland's sustainable development

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

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

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

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

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

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

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

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

The 2018/19 HIAL Annual Report and Group Financial Statements have been submitted to the Scottish Ministers.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
ANNUAL TRAFFIC STATISTICS

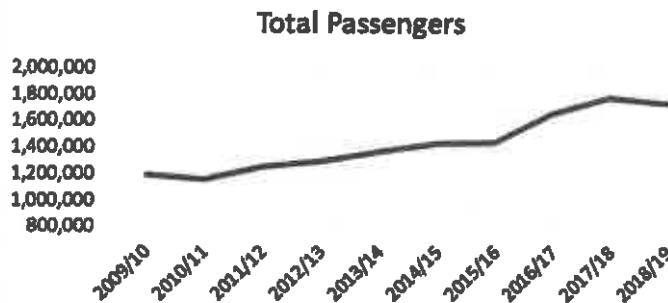
For the year ended 31 March 2019

	Passengers			Movements		
	2018/19	2017/18	No.	2018/19	2017/18	Variance
	No.	No.		No.	No.	No.
Barra	14,804	14,810	(0.0%)	1,424	1,408	1.3%
Bonbecula	38,007	35,380	7.5%	3,649	3,469	5.2%
Campbeltown	8,724	9,133	(4.5%)	2,036	1,495	36.2%
Dundee	22,202	21,909	1.3%	42,857	38,324	11.8%
Inverness	909,159	875,873	3.8%	29,756	30,708	(3.1%)
Islay	35,419	35,057	1.0%	2,771	2,839	5.0%
Kirkwall	195,945	195,982	(0.0%)	14,601	14,976	(2.5%)
Stornoway	137,181	139,951	(2.0%)	10,124	11,167	(9.3%)
Sumburgh	348,443	419,448	(16.9%)	20,973	25,628	(18.2%)
Tiree	13,032	13,201	(1.3%)	1,860	1,903	(2.3%)
Wick	19,450	19,797	(1.8%)	4,043	3,907	3.5%
Total	1,742,366	1,780,521	(2.1%)	134,094	135,620	(1.1%)

10 YEAR STATISTICS

Total Passengers

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
2011/12	1,258,452
2010/11	1,158,041
2009/10	1,193,863



Aircraft Movements

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
2011/12	127,805
2010/11	116,889
2009/10	125,488



HIGHLANDS AND ISLANDS AIRPORTS LIMITED CHAIRMAN'S STATEMENT

It is my pleasure to introduce HIAL's Report and Accounts for 2018/19.

I had the honour of being appointed Chair in February 2019, having served on the HIAL Board since 2014 and as Interim Chair since 2017. I am delighted to have taken the role of Chair at one of Scotland's key public transport network services.

My permanent appointment as Chair leaves a vacancy on the Board which I will work with colleagues in the Scottish Government Public Appointments team to fill in the coming year, together with two other non-executive vacancies we will have in the early part of 2020. It is important that succession planning is in place to ensure the depth and capability that exists within the current Board is maintained.

Over the past year, I am pleased that the strong working relationship between the Board and the Senior Management Team continues, supporting the Board to make decisions to sustain our business through the peaks and troughs of demand and grow our business and income where the opportunities present, all for the benefit of the communities we serve.

I am proud to be part of a talented and devoted team of staff from across all of our airports and head office. Our colleagues have a growing reputation for friendly, professional and personal service, and I continually take pride in the positive feedback I receive about them when out and about across the Highlands and Islands.

It is important that our colleagues, customers, stakeholders and the public help us deliver an airport network that will serve their needs well into the future. The widespread engagement programme undertaken in 2018/19 allowed me to meet with a wide variety of our stakeholders, including local authorities, elected members, airlines, business representative organisations and airport customers from across the region. I would like to thank them for providing me with the opportunity to share our objectives and for their open and honest input and views.

Our mission is to provide and operate safe, secure and efficient airports which support the communities we serve. We are aiming to create social benefit and economic prosperity by building Scotland's regional airport network of the future. This is part of our ambitious vision to become the best regional airport group in the world.

To help us deliver our vision, HIAL is creating a new strategy framework to outline how we propose to develop, grow, and seize opportunities. Input from our colleagues and a wide range of stakeholders is key to shaping HIAL's strategy for the future and our engagement programme is almost complete.

Our public consultation closed at the end of June 2019 and, once we fully evaluate all feedback, we look forward to publishing an ambitious strategy that will support our aims to contribute to the social and economic prosperity of our communities.

Innovation is key to delivering our services more efficiently and this year saw us move forward with more detailed planning for our digital remote tower and surveillance centre solution. Aviation's third revolution – electric aircraft – is on the horizon and it is important that we explore how this next generation of aircraft can connect our communities and help us achieve our ambition to make all of our airports carbon neutral.

It is an exciting stage in HIAL's development and I look forward to working with our Board, our colleagues, customers and stakeholders as we set a path to future-proof and enhance the essential services we provide to our communities. In the meantime, I would like to thank all of them for their hard work over the past year.



Lorna Jack
Chairman, HIAL

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
AITHISG AN CATHRAICHE

Tha e na tholleachas dhomh Aithisg agus Cunntasan HIAL airson 2018/19 a chur an aithne.

Bha e na urram dhomh a bhith air mo shuidheachadh mar Chathraiche sa Ghearran 2019 as dèidh dhomh a bhith nam bhall air Bòrd HIAL bho 2014 agus mar Chathraiche eadar-amail bho 2017. Tha mi air leth toilichte a bhith nam Chathraiche aig aon de na prìomh lionraidhean comhdhail poblach ann an Alba.

Tha dreuchd air fhàgail air a' Bhòrd as dèidh dhomh a bhith air a chur san dreuchd malreannach nam Chathraiche agus obraichidh mi le luchd-obrach aig sgioba Dreuchdan Poblach Rìaghaltais na h-Alba airson lìonadh sa bhliadhna a tha romhainn, còmhla ri dà dhreuchd neo-ghnìomhach eile a bhios againn aig toiseach 2020. Tha e cudromach gum bi dealbhadh leantainneach ann gus dèanamh cinnteach gu bheil an doimhneachd agus an comas a tha sa Bhòrd làithreach air a chumail suas.

Thar na bliadhna a chaidh seachad, tha mi toilichte gu bheil an dalmh obrach làidir eadar am Bòrd agus an Sgioba Stiùiridh a' leantainn air adhart a' toirt taic don Bhòrd airson co-dhùnaidhean a dhèanamh gus an gnòthachas againn a chumail suas rè àm larrtais agus a leudachadh agus fàs a thoirt air teachd-a-steach far a bheil e cothromach seo a dhèanamh, uile airson buannachdan a thoirt nar coimhearsnachdan.

Tha mi pròiseil gu bheil mi nam phàirt de sgioba luchd-obrach tàlantach agus coisrigte bho air feadh ar puirt-adhair agus ar prìomh oifis. Tha cliù ar co-obrachaidhean air fàs airson seirbheis càirdeil, proifeasanta agus pearsanta agus tha mi a' leantainn orm le mo tholleachas anns na beachdan dearbhach a gheibh mi mu na cuairtean aca nuair a bhios iad a' siubhail air feadh na Gàidhealtachd is nan Eilean.

Tha e cudromach gun cuidich ar co-obrachaidhean, luchd-ceannach, luchd-ùidh agus luchd poblach sinn le bhith a' lìbhrigeadh lìonra port-adhair a fhrithealas na feumalachdan aca gu math san t-àm ri teachd. Thug am prògram farsaing com-pàirteachaidh a chaidh a ghabhail os làimh ann an 2018/19 cothrom dhomh colnneachadh ri iomadh luchd com-pàirtean againn, nam measg, ùghdarrasan ionadail, buill thaghte, companaidhean itealain, buidhnean riochdachaidh gnìomhachais agus luchd-ceannaich puirt-adhair bho gach roinn na sgìre. Bu mhath leam taing a thoirt dhaibh airson cothrom a thoirt dhomh na h-amasan againn a thoirt seachad agus airson na beachdan fosgailte agus onarach aca.

Is e am mìsean againn puirt-adhair sàbhailte, tèarainte agus èifeachdach a sholarachadh a bheireas taic do na coimhearsnachdan anns a bheil sinn. Tha amas againn buannachdan sòisealta agus soirbheachas eaconamach a chruthachadh le bhith a' togail lìonra port-adhair roinneil na h-Alba anns an t-àm ri teachd.

Gus cuideachadh le bhith a' lìbhrigeadh ar lèirsinn, tha HIAL a' cruthachadh frèam ro-innleachd ùr gus cunntas a thoirt air mar a tha sinn an dùil cothroman a leasachadh, fhàs agus an glacadh. Tha beachdan ar luchd-obrach agus ar iomadh luchd-ùidhe fìor chudromach gu bhith a' cumadh ro-innleachd HIAL airson an t-àm ri teachd agus tha am prògram com-pàirteachais againn gu bhith dèiseil.

Thig ar co-chomhairle phoblach gu crìoch aig deireadh an t-Ògmhios 2019 agus an uair is gum bi sinn a' measadh a h-uile fios air ais, bidh sinn a' coimhead air adhart ri ro-innleachd ùr àrd-amasach fhoillseachadh a bheir taic do na h-amasan againn a chur ri soirbheachas sòisealta is eaconomigeach nar coimhearsnachdan.

Tha ùr-ghàthachas deatamach ann a bhith a' lìbhrigeadh ar seirbheisean nas èifeachdaiche agus am bliadhna sa thug sinn air adhart le dealbhadh nas mionaidiche airson tùr didseatach iomallach agus ionad caithris. Tha an treas itealanachd rèabhaide – plèanaichean dealain – gus teachd agus tha e cudromach gun rannsalch sinn mar a dh'fhaodas an ath ghinealach de phlèanaichean ar coimhearsnachdan a cheangal agus gun cùdich e sinn gus ar n-àrd-amasan a cholleachadh airson ar puirt-adhair a dhèanamh neodrach a thaobh carbain.

'S e ceum brosnachail a th'ann ann an leasachadh HIAL agus tha mi a' coimhead air adhart ri bhith ag obair leis a' Bhòrd againn, le ar co-obrachaidhean, luchd-ceannaich agus luchd-ùidh agus tha sinn a' cruthachadh slioghe a sheasas ris an t-àm ri teachd agus na seirbheisean riatanach a mheudachadh airson ar coimhearsnachdan. San eadar-ama, bu math leam taing a thoirt dhaibh uile airson an obair chruaich a rinn iad thar na bliadhna a chaidh seachad.



Lorna Jack
Cathraiche HIAL

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

MANAGING DIRECTOR'S STATEMENT

We continue to see positive changes to how our airports are used along with a growing reputation for friendly and personal service.

Looking back over the last year some of our highlights include: Inverness Airport nudging closer to the one million mark with over 909,000 passengers, new direct flights from Islay to and from the Capital of Scotland, a new route announced connecting the Western Isles to London - Stornoway to London Southend - and new double-daily flights from Inverness to Heathrow. Route development continues with KLM announcing three daily flights between Inverness and Amsterdam in the coming summer months.

Over 2018/19, 1.74 million passengers travelled through our airports.

HIAL's contribution to the economic prosperity of and social benefits for our communities cannot be underestimated. In an ever-more connected world, these new and additional flights provide a major boost to our region's business communities, providing access to destinations around the global network.

The additional flights will also enhance worldwide connections to the Highlands and Islands, and make the area even more attractive to overseas visitors keen to experience the best of what our region has to offer.

Tourism is growing, but is becoming ever more competitive on a global scale, and we must cater for it whilst at the same time addressing climate change. We are committed to minimising our environmental impact wherever possible.

HIAL is currently taking the first steps on the journey to make all of our airports carbon neutral. We have recently made the switch to a 100% renewable energy-backed supply and a more environmentally friendly de-icer for all of our airports. This year saw an investment of £1.5 million at Inverness Airport, completing the first phase of a £5.5 million project to update the surface water treatment system at Inverness with resultant environmental improvements.

HIAL plays a vital role in Scotland's transport network and it is imperative that we ensure the longevity of essential air links for our local and business communities. The future and long-term sustainability of aviation connectivity continues to be our driver as we look to build Scotland's regional airport network of the future.

We continue to explore innovative ways to future-proof our airports. We are still at the beginning of our ground breaking air traffic management programme. 2018/19 saw the formation of a dedicated project team to ensure a carefully planned and safe introduction of this state-of-the-art remote surveillance technology.

The team are working on the detailed implementation programme and we remain on target to take the project to procurement in 2019/20.

As a publicly owned body, we continue to operate within a tight fiscal climate and constantly look at innovative ways to deliver our services to improve efficiency and effectiveness. Our focus throughout the year has been to achieve best value in all we do. We continue to be innovative and adaptive, seeking new business opportunities wherever possible to develop income streams and improve efficiencies.

During the year, HIAL received a public subsidy of £28,428,000 including revenue funding of £21,626,000 and capital funding of £6,802,000. This funding was utilised to support airfield operations and fund the ongoing challenge of maintaining our airports' infrastructure.

The group operating loss for the year was £2,402,000. We will continue with our drive to increase business, achieve efficiencies and manage costs, without compromising safety.

We are particularly proud that Inverness Airport has been ranked one of the top airports in the UK and Europe in customer satisfaction surveys for 2018.

The industry-standard Airport Service Quality (ASQ) surveys assessed by Airports Council International (ACI) showed that Inverness ranked second in the UK for overall satisfaction and for the courtesy of its check-in and security teams, which was also ranked fourth in Europe.

**HIGHLANDS AND ISLANDS AIRPORTS LIMITED
MANAGING DIRECTOR'S STATEMENT**

I am delighted with the positive feedback I receive, which is due to the hard work of our staff across all our airports. I would like to say thank you, without their support, running eleven airports in this beautiful part of Scotland would not be possible.



Inglis Lyon
Managing Director, HIAL

HIGHLANDS AND ISLANDS AIRPORTS LIMITED AITHISG A'MHANAIDSEAR-STUIRIDH

Tha sinn fhathast a' faicinn atharrachaidhean adhartach anns an dòigh a tha na puirt-adhair againn air an cleachdadh le clù a' fàs a thaobh seirbheis chàrdeil agus pearsanta.

A' coimhead air ais air a' bhliadhna a chaidh seachad, tha cuid de na prìomh thachartasan a' toirt a-steach: Port-adhair Inbhir Nis ceum nas fhaisg air aon mhillean luchd-siubhail le barrachd air 909,000, turais ùra bho Ile a-nuill 's a-nall bho phrìomh bhaile na h-Alba, slighe ùr air ainmichte, a' ceangail nan Eilean Siar ri Lunnainn – Steòrnabhagh gu Lunnainn Southend – agus turas-adhair dùbailte gach latha bho Inbhir Nis gu Heathrow. Tha leasachadh a' leantainn le KLM ag ainmeachadh turais-adhair làitheil trì tursan gach latha eadar Inbhir Nis agus Amsterdam anns na mìosan samhraidh a tha romhainn.

Thar 2018/2019, chaidh 1.74 millean luchd-siubhail tro na puirt-adhair againn.

Tha an cuideachadh a tha HIAL a' toirt do shoirbheachas eaconamach agus buannachdan sòlèalta nar choimhearsnachdan gu math cudromach. Ann an saoghal a tha nas ceangailte, tha na tursan-adhair ùra a' toirt spionnadh mhòr dha choimhearsnachdan gnìomhachais, a' toirt intrigeadh do chinn-uidhe feadh lìonra an t-saoghal.

Bidh na tursan a bharrachd a' cur àrdachadh air ceangalan air feadh an t-saoghal ris a' Ghàidhealtachd agus na h-Eileanan, agus a' dèanamh an sgìre nas tarraingeach do luchd-siubhal bho thall-thairis a tha airson eòlas fhaighinn air na nìthean as fheàrr a tha an sgìre a' tabhainn.

Tha turasachd a' fàs, ach nas farpaiseiche a-nis aig ìre cruinne, agus feumaidh sinn a fhrithealadh agus aig an aon àm, fòcas a dhèanamh air atharrachadh gnàth-shìde. Tha sinn dealasach a thaobh a bhith a' lùghdachadh ar buaidh àrainneachd far a ghabhas seo a dhèanamh.

Tha HIAL an dràsta tòiseachadh air ceuman air an t-slighe gus na puirt-adhair air fad a bhith gun charboin. Tha sinn bho chionn ghoidid air tionndadh gu 100% cumhachd ath-nuadhachail agus de-icèr nas fheàrr dhan àrainneachd fhaighinn airson a h-uile port-adhair againn. Am bliadhna sa tha sinn air airgead-seilbh de £1.5 millean aig Port Adhair Inbhir Nis, a' crìochnachadh a' chiad ìre de phròiseact £5.5 millean gus an t-slostam leigheas uisge-uachdair ann an Inbhir Nis ùrachadh agus mar thoradh air an seo, leasachaidhean san àrainneachd.

Tha pàirt cudromach aig HIAL a thaobh lìonra còmhdaidh na h-Alba agus tha e cudromach gun dèan sinn cinnteach gum bi ceanglaichean adhair riatanach againn airson ar choimhearsnachdan Ionadail is gnìomhachais. Tha seasmhachd san ùine-fhada is anns an t-àm ri teachd fhathast na dhraibhear dhuinn agus sinn a' coimhead ri togail lìonra phort-adhair roinneil na h-Alba san t-àm ri teachd.

Tha sinn a' leantainn oimn a' sgrùdadh dòighean ùra gus dìon a thoirt air ar puirt-adhair san t-àm ri teachd. Tha sinn fhathast aig toiseach prògram ùr riaghladh trafalg adhair. Ann an 2018/19, chaidh sglòba-phròiseict sònraichte a chruthachadh gus dèanamh cinnteach gum bi an teicneolas faire-astar lomallach a dhealbhadh gu faiceallach agus gu sàbhailte.

Tha an sglòba ag obair air a' phrògram gnìomhachaidh mionaideach agus tha sinn air targaid gus a' phròiseact a thoirt gu solarachadh ann an 2019/20.

Mar bhuidheann poblach, tha sinn ag obair am broinn gnàth-shìde teann agus a' coimhead air dòighean ùra airson seirbheisean a libhrigeadh gus èifeachdas is buaidh a leasachadh. Is e ar fòcas thar na bliadhna, an luach as fheàrr a thoirt gu buil anns a h-uile rud a bhios sinn a' dèanamh. Tha sinn a' leantainn oimn le bhith ùr-ghnàthaichte agus sùbailte, a' lorg chothroman gnìomhachais ùra far an gabh sin a dhèanamh gus teachd-a-steach agus èifeachdas a leasachadh.

Thar na bliadhna, fhuair HIAL subsadaidh poblach de £28,428,000 a' gabhail a-steach maoinachadh teachd a-steach de £21,626,000 agus maoinachadh calpa de £6,802,000. Chaidh an t-airgead a chleachdadh gus taic a thoirt do dh'obair phlànaichean-adhair agus maoinachadh a thoirt don dùbhan leantainneach airson bun-structar ar puirt-adhair a chumail suas.

Bha call obrach na bliadhna £2,402,000. Leanaidh sinn air adhart le ar àrd-amasan gus gnothachas a mheudachadh, dòighean èifeachdas a cholleannadh agus cosgaisean a stiùreadh, gun a bhith a' toirt buaidh air sàbhailteachd.

Tha sinn uabhasach pròiseil gu bheil ceum-inbhe aig Port-adhair Inbhir Nis mar aon de na puirt-adhair as fheàrr san Rìoghachd Aonaichte (RA) agus san Roinn Eòrpa ann an suirbhidhean toilleachas luchd-cleachdaidh 2018.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
AITHISG A'MHANAIÐSEAR-STUIRIDH

Sheall na suirbhidhean Inbhe Seirbheis na Puirt-adhair (ASQ) a chaidh a mheasadh le Comhairle nam Puirt-adhair Eadar-nàiseanta gu robh Inbhir Nis san dàrna àite san RA airson toileachadh uile gu lèir agus le cead bho luchd-glèidhidh agus egiobaidhean teanantachd a bha cuideachd anns a' cheathramh àite anns an Roinn Eòrpa.

Tha mi air leth tollichte le na deagh bheachdan a tha mi a' faighinn, a tha ri linn obair chruaidh an luchd-obrach air feadh ar puirt-adhair air fad. Bu mhath leam taing a thoirt dhalbh, às aonais an taic aca, cha bhiodh e comasach aon phuirt-adhair deug a ruith anns a' phàirt bhrèagha seo de dh'Alba.



Inglis Lyon
Manaidsear-stiùiridh, HIAL

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

STRATEGIC REPORT

The directors submit their Strategic Report and the Group financial statements for the year ended 31 March 2019.

Principal activity

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

Results and dividends

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

The parent company loss after taxation amounted to £3,018,000 (2018: loss £2,663,000). The directors recommend that no dividend be paid.

Review of the business

Public subsidies received for the year ended 31 March 2019 totalled £28,428,000 (2018: £29,075,000) made up of revenue of £21,626,000 (2018: £20,440,000) and capital of £6,802,000 (2018: £8,635,000).

Passenger numbers across the Group decreased by 2.1% and aircraft movements decreased by 1.1%. Excluding Dundee Airport these variances have decreased by 2.2% and a decrease of 6.2% respectively. Freight tonnage increased by 0.03%.

Future developments

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

Principal risks and uncertainties

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

- **Liquidity risks**
The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continually monitoring forecast and actual cash flows.
- **Business risks**
The income for the Group is derived from a limited number of airline customers. Any external pressures faced by those customers may lead to them reviewing their operating schedule and this in turn may impact on Group income, costs and connectivity for the regions we serve.
- **Legislative risks**
Airport operations across the Group are regulated by the Health and Safety Executive, UK Civil Aviation Authority (CAA), Scottish Environmental Protection Agency and security standards are set by the Department for Transport and inspected by the CAA. These bodies regularly review and update their standards and requirements and any new Directives are likely to have a material impact on the cost of airport operations.
- **Operational risks**
The Group manages operational risk through its safety management and risk management systems. Overall Group strategy and direction is determined by the board of directors and by Scottish Government policy.

Key performance indicators

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

Supplier payment policy and practice

It is group policy that payments to suppliers are made in accordance with terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 March 2019 the group had an average of 28 days' purchases owed to trade creditors (2018: 33 days).

HIGHLANDS AND ISLANDS AIRPORTS LIMITED STRATEGIC REPORT

Capital expenditure

Investment in property, plant and equipment amounted to £8.9m. Major works undertaken included:

- a) Benbecula - £538k on the Coast Protection Phase 3.
- b) Inverness - £1.5m on Drainage & Septic Tank, £279k on Security Search Amendment, £206k on Voice Communication Control System and £191k on Cabin Baggage Xray System
- c) Kirkwall - £520k on Runway 14/32, £441k on ATC Tower Refurbishment, £236k on the Car Park Barrier/Payment System
- d) Sumburgh - £522k on the Car Park Barrier/Payment System.
- e) Wick - £536k on the North Apron Drainage.

Safety and security

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

Air Navigation Service Provider (ANSP)

In accordance with EC Single European Sky legislation, HIAL is certificated and designated as an ANSP by the UK Civil Aviation Authority ("the regulator"). The following information for the year 2018/19 is provided in accordance with the reporting requirements set out in Commission Regulation (EC) No 2096/2005.

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

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

ATM Strategy 2030 is HIAL's mid to long term Air Traffic Management (ATM) strategy. Whilst enhancing safety and efficiency this strategy will see the company transition to a more sustainable, more cost effective, and more environmentally friendly Airspace environment. The Air Traffic Service (ATS) model will meet with the Company's operational and business needs and satisfy stakeholder expectations and regulatory requirements post 2020.

Inverness:

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

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

HIAL will continue to provide an Air Traffic Service (ATS) to meet customer requirements. This includes providing on call response for lifeline services including air ambulance and search and rescue. We expect to transition from standalone Approach Procedural Services to a new centralised surveillance service using new surveillance tools and remote tower technologies as they become available (see ATM Strategy above). As part of the ATM Strategy, we will introduce controlled airspace at all of the above airports with the exception of Sumburgh airport, which already has controlled airspace. National Air Traffic Services (NATS) continue to provide the radar approach service to Sumburgh Airport. Benbecula and Stornoway completed the replacement of Meteorological Equipment in 2017/18, with the remaining ATC Units following in 2018/19. Inverness replaced their voice communication system in 2018/19, with Kirkwall, Sumburgh and Dundee following in 2019/20. NDB NAVAID facilities at Kirkwall and Campbeltown are expected to be replaced in 2020/21 and 2019/20 pending structural inspection reports.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED STRATEGIC REPORT

Barra, Campbeltown, Islay and Tiree:

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

Human Resources

This year involved the creation of a Learning and Development function to enable the organisation to focus more on organisational development activities and have greater corporate oversight of the wealth of training activity undertaken.

The Learning and Development team has begun work on a learning and development strategy for the organisation and are reviewing current policies and practices. Key areas for development have been identified including succession planning and talent management. A review of our induction and appraisal processes are also underway. We remain an IIP accredited employer, and this will continue to be a focus over the coming year.

A key priority for the generalist HR function over the course of the year has been a review of our reward strategy. To date a large piece of work evaluating all roles within the company has been undertaken. This work will continue into the coming year with the development of a new pay and grading system.

Gender Pay Gap Reporting came into place in 2017 which requires organisations to publish statutory calculations to show how large the pay gap is between their male and female employees. The results of this work have helped inform our priorities for other areas of organisational development including our reward strategy.

Levels of recruitment have remained stable over the last year with around 120 vacancies processed. These are a combination of new recruits to replace leavers, internal transfers/promotions and some newly created roles. Security remains our busiest function in terms of recruitment making up 42.3% of all vacancies, with these roles often acting as entry level posts into the aviation industry. This year we have seen an increase in the number of Business and Support Services vacancies dealt with. This includes the creation and recruitment of a new team to take forward our Air Traffic Management Strategy.

Our turnover level has decreased from 10.6% (2017/18) to 9.28% (2018/19). Turnover levels remain highest in Security at 13.84% (down from 15.2% the previous year).

Going concern

The parent company sets an annual budget which aims to balance income, expenditure and operating subsidy provisions set by government. Future operational and legislative requirements are addressed in a ten year corporate plan which includes provision for revenue and capital items such as major repairs to runways or new or replacement equipment. The core operating subsidy budget for the year to 31 March 2019 was set at up to £30.0 million (including up to £21.6 million of revenue subsidy) and this was drawn down during the year. The operating subsidy budget has been set at up to £36.4 million (including up to £20.3 million of revenue subsidy, and up to £16.1m capital subsidy and capital loans) for the year ending 31 March 2020. This is considered by the directors to be adequate to sustain the Group as a going concern having considered the 12 months ahead from date of approval of the financial statements.

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

As a result of the IAS 19 pension deficit the group has net liabilities of £30.737m (2018: £24.563m) and the company has net liabilities of £26.331m (2018: £20.551m) at 31 March 2019. This net liability position is a result of bringing a long term pension liability onto the balance sheet and does not reflect the group or company's ability to continue as a going concern or to meet its liabilities as they fall due. Accordingly the group and the company continue to adopt the going concern basis in preparing their annual financial statements.

By order of the board



Inglis Lyon
Company Secretary
27 August 2019

**HIGHLANDS AND ISLANDS AIRPORTS LIMITED
DIRECTORS' REPORT**

The directors submit their report and the group financial statements for the year ended 31 March 2019.

Directors

The directors who served during the year to 31 March 2019 and subsequently are:-

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

Directors' qualifying third party indemnity provisions

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

Auditor

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

Directors' statement as to disclosure of information to the auditor

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

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

By order of the board



Inglis Lyon
Company Secretary
27 August 2019

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

GOVERNANCE STATEMENT

Introduction

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

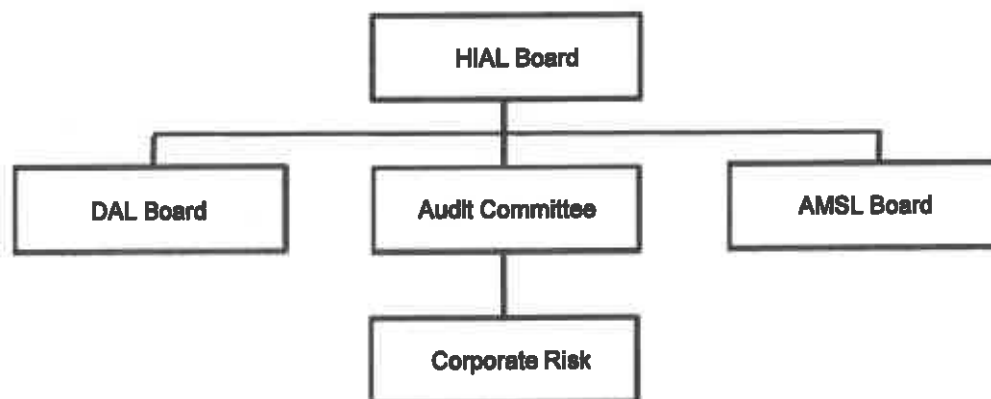
The purpose of the Governance Statement is to explain the composition and organisation of HIAL's governance structures and how they support the achievement of HIAL's objectives. It sets out the governance structures, risk management and internal control processes that have been operating in HIAL during FY 2018-19 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 Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling of public funds. It is designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of probity and secure effective accountability and good systems of internal control. As the group is a body sponsored by the Scottish Government, guidance contained in the SPFM is applicable.

The following diagram outlines the current governance structure.



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. The HIAL Board is responsible for providing leadership, direction, support and guidance, and in ensuring that HIAL delivers its functions effectively and efficiently and in accordance with the aims, policies and priorities of the Scottish Ministers.

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

The Board is currently composed of six members with one vacancy. The six members are the non-executive chairman, the executive managing director, the executive finance director and three non-executive directors. The Board has a clear schedule of matters reserved to it and a clear scheme of delegation to the managing director, finance director and other members of the executive team. All matters of significance including those reserved to the Board are brought for discussion and approval to the Board at its meetings. The Board meets on a six weekly cycle, with periodic additional telephone meetings as business dictates. Attendance by members of the Board for the financial year ended 31 March 2019 is shown in the table below. Board members declare their interests annually and records are kept.

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.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED GOVERNANCE STATEMENT

Audit Committee

The Board has established an Audit Committee with agreed terms of reference to advise it on the adequacy of risk management arrangements, internal control and governance matters, including compliance with the Scottish Public Finance Manual (SPFM). The committee receives regular reports from internal and external auditors and oversees the corporate risk register 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 2019 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.

FY 2018/19									
Name	Audit Committee			HIAL Board			DAL Board		
	Position	Held	Attended	Position	Held	Attended	Position	Held	Attended
Lorna Jack	N/A	N/A	N/A	Interim Chair	7	7	Interim Chair	7	7
James McLaughlin	Interim Chair	4	4	NXD Member	7	7	NXD Member	7	7 (1 via phone)
David Savile	NXD Member	4	3	NXD Member	7	7	NXD Member	7	7
Timothy Whittome	NXD Member	4	4	NXD Member	7	7	NXD Member	7	7
Inglis Lyon	In Attendance	4	2	Member MD	7	7	Member MD	7	7
Gillian Bruton	In Attendance	4	4	Member FD	7	6	Member FD	7	6
David Martin	N/A	N/A	N/A	N/A	N/A	N/A	NXD Member	7	7 (5 via Phone)

Internal audit

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

Purpose of the system of internal control

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

The process within the organisation accords with the SPFM and has been in place for the year ended 31 March 2019 and up to the date of approval of the annual report and accounts.

Risk and control framework

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

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

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

- Identify new and emerging risks (including opportunities) facing the Group and its operations;
- Ensure significant risks are being effectively managed across the business by reviewing the Group risk register and updating as necessary, giving consideration to the Group's risk exposure;
- Coordinate cross functional activities to ensure effective, efficient controls are developed and maintained;
- Review the operation of internal controls within the Group and identify any gaps;
- Review the operation of risk and safety management activities within the Group and identify any gaps;
- Recommend improvements to procedures and processes to reflect best business practice and the needs of the business;

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GOVERNANCE STATEMENT

- Support and review continuity and recovery plans ensuring the business remains resilient against all eventualities i.e. business continuity plans, pandemic plans etc.;
- Identify common trends arising from internal/external audits, incident investigations, lessons learnt etc. and drive forward recommendations for suitable actions;
- Promote and encourage ownership of corporate responsibility in regards to risk management;
- Drive forward new risk management initiatives within the business;
- Communicate risk and share good practice;
- Review and monitor risk management training;
- Undertake specific activities as directed by the Group boards.

Safety management systems

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

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

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
27 August 2019

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group 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.

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 2019, which comprise the Group Income Statement, the Group and Company Statement of Comprehensive Income, the Group and Company Statement of Changes in Equity, the Group and Company Balance Sheet, the Group Statement of Cash Flows, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the directors

As explained more fully in the Directors' Responsibilities Statement on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

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

Use of our report

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



Nick Bennett (Senior statutory auditor)
for and on behalf of Scott Moncrieff, Statutory Auditor
Exchange Place 3
Sempie Street
Edinburgh
EH3 8BL
27 August 2019

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £000	2018 £000
Revenue	3	25,099	24,895
Cost of sales		<u>(44,424)</u>	<u>(42,723)</u>
Gross loss		<u>(19,325)</u>	<u>(17,828)</u>
Administrative expenses		(4,780)	(4,745)
Other income	4	21,870	20,609
Other losses	6	<u>(167)</u>	<u>(241)</u>
Operating loss	5	<u>(2,402)</u>	<u>(2,205)</u>
Share of operating loss in joint venture	12	(117)	(33)
Finance revenue	8	112	115
Other finance cost – pensions	22	<u>(902)</u>	<u>(941)</u>
Loss from continuing operations before tax		<u>(3,309)</u>	<u>(3,064)</u>
Tax charge	9	4	(23)
Loss from continuing operations		<u>(3,305)</u>	<u>(3,087)</u>

All activities relate to continuing operations.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £000	2018 £000
Loss for the year		(3,305)	(3,087)
Other comprehensive income:			
Actuarial (losses)/gains	22	(2,869)	6,434
Tax on items relating to components of other comprehensive income		-	-
Other comprehensive (expense)/income for the year, net of tax		(2,869)	6,434
Total comprehensive (expense)/income for the year		(6,174)	3,347

COMPANY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £000	2018 £000
Loss for the year		(3,018)	(2,663)
Other comprehensive income:			
Actuarial (losses)/gains	22	(2,762)	4,180
Tax on items relating to components of other comprehensive income		-	-
Other comprehensive (expense)/income for the year, net of tax		(2,762)	4,180
Total comprehensive (expense)/income for the year		(5,780)	1,517

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019

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

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

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2019

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

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP BALANCE SHEET
AS AT 31 MARCH 2019

	Notes	2019 £000	2018 £000
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	10	116,575	115,600
Investment properties	11	633	830
Investments accounted for using the equity method	12	(20)	97
Intangible assets	13	55	55
Long term loan to joint venture	14	-	1,730
		<u>117,243</u>	<u>118,312</u>
<i>Current assets</i>			
Trade and other receivables	15	5,980	4,515
Inventories	16	57	43
Cash and cash equivalents	17	3,106	2,260
		<u>9,142</u>	<u>6,818</u>
Total assets		<u>126,385</u>	<u>125,130</u>
LIABILITIES			
<i>Current liabilities</i>			
Trade and other payables	18	<u>(9,365)</u>	<u>(8,390)</u>
		<u>(9,365)</u>	<u>(8,390)</u>
<i>Non-current liabilities</i>			
Loan	19	(1,896)	(1,366)
Deferred tax liability	9(d)	-	-
Defined benefit pension scheme deficit	22	(30,057)	(24,532)
Deferred subsidies	20	(115,804)	(115,405)
		<u>(147,757)</u>	<u>(141,303)</u>
Total liabilities		<u>(157,122)</u>	<u>(149,693)</u>
NET LIABILITIES		<u>(30,737)</u>	<u>(24,563)</u>
EQUITY			
Ordinary shares	23	50	50
Retained earnings		<u>(30,787)</u>	<u>(24,613)</u>
		<u>(30,737)</u>	<u>(24,563)</u>

The financial statements were authorised for issue by the Board of Directors on 27th August 2019 and signed on its behalf by:


Lorna Jack, MA CA
Chairman


Inglis Lyon
Managing Director

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
COMPANY BALANCE SHEET
AS AT 31 MARCH 2019

	Notes	2019 £000	2018 £000
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	10	105,960	105,553
Investment properties	11	633	830
Investments	12	1,998	1,998
Long term loan to joint venture	14	-	1,730
		<u>108,591</u>	<u>110,111</u>
<i>Current assets</i>			
Trade and other receivables	15	6,203	4,773
Inventories	16	9	4
Cash and cash equivalents	17	2,895	2,056
		<u>9,107</u>	<u>6,833</u>
Total assets		<u>117,698</u>	<u>116,944</u>
LIABILITIES			
<i>Current liabilities</i>			
Trade and other payables	18	<u>(8,975)</u>	<u>(7,858)</u>
		<u>(8,975)</u>	<u>(7,858)</u>
<i>Non-current liabilities</i>			
Loan	19	(1,896)	(1,366)
Deferred tax liability	9(d)	-	-
Defined benefit pension scheme deficit	22	(28,090)	(23,016)
Deferred subsidies	20	<u>(105,068)</u>	<u>(105,255)</u>
		<u>(135,054)</u>	<u>(129,637)</u>
Total liabilities		<u>(144,029)</u>	<u>(137,495)</u>
NET LIABILITIES		<u>(26,331)</u>	<u>(20,551)</u>
EQUITY			
Ordinary shares	23	50	50
Retained earnings		<u>(26,381)</u>	<u>(20,601)</u>
		<u>(26,331)</u>	<u>(20,551)</u>

The financial statements were authorised for issue by the Board of Directors on 27th August 2019 and signed on its behalf by:


Lorna Jack, MA, CA
Chairman


Inglis Lyon
Managing Director

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
GROUP CASH FLOW STATEMENT
AS AT 31 MARCH 2019

	Notes	2019 £000	2018 £000
<i>Cash flows from operating activities</i>			
Cash generated by/(used in) operations	24	1,092	(642)
Purchase of property, plant and equipment		(8,922)	(9,903)
Proceeds from sale of property, plant and equipment		62	71
Receipt of capital subsidy		7,685	8,635
Tax paid		(1)	-
<i>Net cash flow from operating activities</i>		<u>(84)</u>	<u>(1,839)</u>
<i>Cash flows from investing activities</i>			
Increase in loan to joint venture		(25)	(25)
<i>Net cash flow from investing activities</i>		<u>(25)</u>	<u>(25)</u>
<i>Cash flows from financing activities</i>			
Loan received		1,270	1,068
Loan repaid		(297)	(82)
Interest paid		-	-
Interest received		(19)	(7)
<i>Net cash flow from financing activities</i>		<u>954</u>	<u>979</u>
<i>Increase/(Decrease) in cash and cash equivalents</i>		<u>845</u>	<u>(885)</u>
<i>Cash and cash equivalents at the beginning of the year</i>		<u>2,260</u>	<u>3,145</u>
<i>Cash and cash equivalents at the end of the year</i>		<u>3,105</u>	<u>2,260</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

The financial statements of Highlands and Islands Airports Limited and its subsidiaries (the Group) for the year ended 31 March 2019 were authorised for issue by the board of directors on 27 August 2019 and the Balance Sheet was signed on the Board's behalf by Lorna Jack and Inglis Lyon.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2019.

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

2. Accounting policies

2.1a. Basis of preparation

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

2.1b. Going concern

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

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

As a result of the IAS 19 pension deficit the Group has net liabilities of £30.737m and the Company has net liabilities of £26.331m at 31 March 2019. 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 2019.

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.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (continued)

(b) Government grants

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

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

(c) Income taxes

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

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

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

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

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

(d) Pensions

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

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

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

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

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

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (continued)

(e) Property, plant and equipment

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

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

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

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

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

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

(f) Leasing

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

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

Group as a lessee

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

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

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

Group as a lessor

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

(g) Business combinations

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (continued)

(h) Goodwill

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

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

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

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

(i) Investments in joint ventures

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

(j) Investment properties

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

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

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

(k) Intangible assets

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

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

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (continued)

(l) Impairment of non-financial assets

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

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

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

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

(m) Cash and short term deposits

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

(n) Provisions

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

(o) Inventories

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

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

(p) Trade and other receivables

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

(q) Financial assets

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

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

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

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2.3. Significant accounting policies (continued)

(q) Financial assets (continued)

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

Loans and receivables

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

(r) Financial asset impairment review

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

Assets carried at amortised cost

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

2.4. Judgements and key sources of estimation uncertainty

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

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

Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the Income Statement. The Group engaged independent valuation specialists to determine the fair value as at 31 March 2019. For the investment properties the valuer used a valuation technique based on an adapted discounted cash flow model as there is a lack of comparable market data because of the nature of the properties.

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

Defined benefit pension schemes

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

IFRS 9	Financial Instruments
IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments

The above standards and interpretations are expected to be adopted in accordance with their effective dates and have not been adopted in these financial statements. All of the above standards and interpretations are effective for periods commencing on or after 1 January 2019 or later. The directors do not anticipate that adoption of these standards and interpretations other than as stated below will have a material impact on the financial statements in the period of initial application.

IFRS 16 Leases

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

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

The Company has evaluated the expected impact of IFRS 16 on its financial statements. Based on the operating leases the Company currently have as a lessee (see note 25) the impact of IFRS 16 it is not expected to be significant. The asset and corresponding liability that will be recognised under IFRS 16 is expected to be less than £600k as at 31 March 2019.

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

3. Revenue

	2019	2018
	£000	£000
Revenue recognised in the Income Statement is analysed as follows:		
Revenue from airport charges	19,525	19,644
Concession revenues	2,911	2,548
Rental income	2,663	2,703
Total revenue	<u>25,099</u>	<u>24,895</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

4. Other Income		
	2019	2018
	£000	£000
Government grants, other grants & services rendered	<u>21,870</u>	<u>20,609</u>
	21,870	20,609

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 2019 and 2018 was as follows:

Revenue		2019	2018
		£000	£000
Scottish Government	Operating subsidy	21,626	20,440
Scottish Government	Air Discount Scheme	139	125
Miscellaneous	Miscellaneous	<u>105</u>	<u>44</u>
		21,870	20,609

Capital			
Scottish Government	Operating subsidy and grants	<u>6,802</u>	<u>8,635</u>
and other bodies		<u>6,802</u>	<u>8,635</u>
		28,672	29,244

5. Group operating loss

This is stated after charging/(crediting):

	2019	2018
	£000	£000
Decrease in fair value of investment properties	197	269
Depreciation of property, plant and equipment	7,917	7,938
Amortisation of intangible assets	-	-
Deferred subsidies release	(7,286)	(7,895)
Operating lease payments	67	51
Auditor's remuneration – audit services	32	40

6. Other (losses) & gains

	2019	2018
	£000	£000
Gain on disposals of property, plant and equipment	30	28
Decrease in fair value of investment properties	<u>(197)</u>	<u>(269)</u>
	(167)	(241)

7. Employee benefit expense

	2019	2018
	£000	£000
Wages and salaries	22,171	21,286
Social security costs	2,408	2,310
Pension costs	5,833	5,508
Other staff costs	<u>1,089</u>	<u>887</u>
	31,501	29,991

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

7. Employee benefit expense (continued)

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

	2019 No.	2018 No.
Administration	64	56
Air traffic services	95	82
Airport fire service	194	193
Apron operations	1	5
Engineering	21	21
Management	39	34
Security	216	222
	<u>620</u>	<u>613</u>

Directors' remuneration

	2019 £000	2018 £000
Emoluments	218	240
Pension contributions	29	23

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

	2019 No.	2018 No.
£5,001 to £10,000	3	1
£10,001 to £20,000	-	4
£20,001 to £60,000	2	1
£140,001 to £145,000	1	-
£150,001 to £155,000	-	1

The emoluments of the highest paid director, Inglis Lyon, were £120,404 (2018: £127,920) excluding pension contributions of £29,343 (2018: £23,208).

Caledonian Maritime Assets Ltd charged the group £57,240 (2018: £54,600) for the services of a Director (note 26).

The Law Society of Scotland charged the group £22,320 (2018: £15,526) for the services of L Jack, who is the chairman.

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

8. Finance revenue

	2019 £000	2018 £000
Bank interest receivable	(19)	(7)
Other finance income	131	122
	<u>112</u>	<u>115</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

9. Taxation

(a) Tax charged in the Income Statement

	2019 £000	2018 £000
Current income tax:		
Current income tax	18	23
Amounts overprovided in previous years	(22)	-
Total current income tax	<u>(4)</u>	<u>23</u>
Deferred tax:		
Origination and reversal of temporary differences	-	-
Effect of decreased tax rate on closing liability	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Tax expense in the Income Statement		
Income tax on continuing operations	<u>(4)</u>	<u>23</u>
The tax expense in the Income Statement is disclosed as follows:	<u>(4)</u>	<u>23</u>

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

	2019 £000	2018 £000
Tax on defined benefit pension scheme	-	-
Total current income tax	<u>-</u>	<u>-</u>
Deferred tax:		
Deferred tax on defined benefit pension scheme	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Tax expense in Statement of Other Comprehensive Income	<u>-</u>	<u>-</u>

(c) Reconciliation of the total tax charge

The tax charge in the Income Statement for the year is higher than the standard rate of corporation tax in the United Kingdom of 19% (2018: 19%). The differences are reconciled below:

	2019 £000	2018 £000
Accounting (loss) before income tax	<u>(3,309)</u>	<u>(3,064)</u>
Accounting (loss) multiplied by the UK standard rate of tax of 19% (2018: 19%)	(629)	(582)
Expenses not deductible for tax purposes	19	1
Tax losses carried forward	-	-
Tax losses utilised	(11)	(194)
Government grants exempt from tax	(1,500)	(1,252)
Pension provisions not tax deductible	432	298
Adjustment in respect of prior periods	(22)	-
Adjustment in respect of IFRS	69	-
Interest on redeemable shares	(25)	-
Adjustment relating to sale of assets	32	46
Adjustment relating to tax on UK GAAP	-	-
Net depreciation in excess of capital allowances	1,609	1,699
Share of JV not tax deductible	22	7
Deferred tax movement per note 9 (d)	-	-
Total tax charge reported in the Income Statement	<u>(4)</u>	<u>23</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

9. Taxation (continued)

(d) Deferred tax

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

	Balance Sheet		Income Statement	
	2019	2018	2019	2018
	£000	£000	£000	£000
Deferred tax liability				
Accelerated capital allowances	-		-	0
Revaluations of investment properties	123	203	80	(13)
	123	203	80	(13)
Deferred tax asset				
Accelerated capital allowances	4,736	4,789	(53)	187
Pensions	5,076	4,506	570	(214)
Tax losses carried forward	1,944	1,821	123	(81)
Deferred revenue	(5,119)	(5,125)	6	(160)
Deferred tax not recognised	(6,514)	(5,788)	(726)	281
	123	203	(80)	13

Disclosed on the Group and Company Balance Sheet and Income Statement

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

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

10. Property, plant and equipment

Group	Land and	Plant and	Construction	Total
	buildings			
	freehold			
	£000	£000	£000	£000
Cost:				
At 1 April 2017	49,016	158,624	9,282	216,924
Additions	488	447	8,968	9,903
Disposals	(20)	(840)	-	(860)
Transfers	4,334	5,392	(9,726)	-
At 31 March 2018	53,820	163,623	8,524	225,967
Depreciation and Impairment:				
At 1 April 2017	(31,796)	(71,451)	-	(103,247)
Provided during the year	(1,326)	(6,612)	-	(7,938)
Disposals	17	801	-	818
At 31 March 2018	(33,105)	(77,262)	-	(110,367)
Net book value:				
At 31 March 2018	20,715	86,361	8,524	115,600
At 31 March 2017	17,222	87,173	9,282	113,677

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

10. Property, plant and equipment (continued)

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

Company	Land and buildings freehold £000	Plant and equipment £000	Construction In progress £000	Total £000
Cost:				
At 1 April 2017	45,262	138,349	9,237	192,848
Additions	472	383	8,840	9,695
Disposals	(21)	(808)	-	(829)
Transfers	4,335	5,273	(9,608)	-
At 31 March 2018	50,048	143,197	8,469	201,714
Depreciation and Impairment:				
At 1 April 2017	(28,789)	(60,569)	-	(89,358)
Provided during the year	(1,357)	(6,231)	-	(7,588)
Disposals	17	768	-	785
At 31 March 2018	(30,129)	(66,032)	-	(96,161)
Net book value:				
At 31 March 2018	19,919	77,165	8,469	105,553
At 31 March 2017	16,473	77,780	9,237	103,490

Company	Land and buildings freehold £000	Plant and equipment £000	Construction In progress £000	Total £000
Cost:				
At 1 April 2018	50,048	143,197	8,469	201,714
Additions	134	364	8,057	8,555
Disposals	-	(1,223)	-	(1,223)
Transfers	3,275	7,710	(10,985)	-
At 31 March 2019	53,457	150,048	5,541	209,046
Depreciation and Impairment:				
At 1 April 2018	(30,129)	(66,032)	-	(96,161)
Provided during the year	(1,556)	(6,562)	-	(8,118)
Disposals	-	1,193	-	1,193
At 31 March 2019	(31,685)	(71,401)	-	(103,086)
Net book value:				
At 31 March 2019	21,772	78,648	5,541	105,960
At 31 March 2018	19,919	77,165	8,469	105,553

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

11. Investment property

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

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Valuation at 1 April	830	830	1,099	1,099
Additions	-	-	-	-
Disposals	-	-	-	-
Fair value adjustment	(197)	(197)	(269)	(269)
Valuation as at 31 March	<u>633</u>	<u>633</u>	<u>830</u>	<u>830</u>

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

The valuations were performed by Gerald Eve as at 31 March 2019, an accredited independent consultant with a recognised and relevant professional qualification and with recent experience in the location and category of investment properties being valued. The critical assumptions made relating to valuations are set out below:

Yields (%)	2019 6.5% - 16.85%	2018 6% - 27%
------------	-----------------------	------------------

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:

	2019 £000	2018 £000
Share of the joint venture's balance sheet:		
Non-current assets	(20)	97
Current assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Share of other reserves	-	-
Share of net (liabilities)/assets	<u>(20)</u>	<u>97</u>
	2019 £000	2018 £000
Share of the joint venture's results:		
Revenue	94	207
Net operating expenses	(214)	(243)
Loss before taxation	(120)	(36)
Tax expense	3	3
Loss after taxation	<u>(117)</u>	<u>(33)</u>

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

12. Investments (continued)

(b) Details of Group undertakings

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital at 31 March 2018 and 2019 are as follows:

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

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

Company	Subsidiary undertakings £000	Joint ventures £000	Total £000
Cost:			
At 1 April 2017	10	1,988	1,998
Acquisitions	-	-	-
Additions	-	-	-
Disposals	-	-	-
At 31 March 2018	10	1,988	1,998
Amortisation and Impairment:			
At 1 April 2017	-	-	-
Amortisation during the year	-	-	-
Impairment charges	-	-	-
Disposals	-	-	-
At 31 March 2018	-	-	-
Net book value:			
At 31 March 2018	10	1,988	1,998
At 31 March 2017	10	1,988	1,998
	Subsidiary undertakings £000	Joint ventures £000	Total £000
Cost:			
At 1 April 2018	10	1,988	1,998
Acquisitions	-	-	-
Additions	-	-	-
Disposals	-	-	-
At 31 March 2019	10	1,988	1,998
Amortisation and Impairment:			
At 1 April 2018	-	-	-
Amortisation during the year	-	-	-
Impairment charges	-	-	-
Disposals	-	-	-
At 31 March 2019	-	-	-
Net book value:			
At 31 March 2019	10	1,988	1,998
At 31 March 2018	10	1,988	1,998

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

13. Intangible fixed assets

Group

	Total £000
Cost:	
At 1 April 2017	25,178
Acquisitions	-
Additions	-
Disposals	(24,638)
At 31 March 2018	<u>540</u>
Amortisation and impairment:	
At 1 April 2017	(25,123)
Amortisation during the year	-
Disposals	24,638
At 31 March 2018	<u>(485)</u>
Net book value:	
At 31 March 2018	<u>55</u>
At 31 March 2017	<u>55</u>
Cost:	
At 1 April 2018	540
Acquisitions	-
Additions	-
Disposals	-
At 31 March 2019	<u>540</u>
Amortisation and impairment:	
At 1 April 2018	(485)
Amortisation during the year	-
Impairment charges	-
Disposals	-
At 31 March 2019	<u>(485)</u>
Net book value:	
At 31 March 2019	<u>55</u>
At 31 March 2018	<u>55</u>

Intangibles relate to leasing contracts acquired as part of the acquisition of Dundee Airport Limited. This intangible asset was grant funded. The asset was initially recorded at its fair value of £170,500 and subsequently measured under the cost model. The assets are being amortised over the periods over which the contractual cash flows are expected to arise. Amortisation is included within administrative expenses. The Intangible assets have a useful life of 52 years at 31 March 2019.

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

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

14. Loans to joint ventures

Group and company	2019 £000	2018 £000
Loans to joint venture	-	1,730
Total non-current financial assets	<u>-</u>	<u>1,730</u>

The loan above relates to two amounts loaned to IABP (the Group's joint venture investment) by Highlands and Islands Airports Limited. The first amount relates to funding provided to IABP for operational expenditure until IABP starts earning its revenue, which was stipulated under the shareholders' agreement. The second part relates to redeemable shares issued by the joint venture against a piece of land sold by HIAL to IABP. The loans are classified as loans and receivables, are interest free and are neither past due nor impaired. The loans have been reclassified as current debtors at 31 March 2019 and are deemed to be repayable on demand.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

15. Trade and other receivables

Group

	2019 £000	2018 £000
Trade receivables	3,085	3,556
Less: provision for impairment of receivables	<u>(635)</u>	<u>(615)</u>
Trade receivables net of impairment	2,450	2,941
Receivables from joint ventures	2,258	371
Prepayments and other accrued income	641	455
Other receivables	<u>631</u>	<u>748</u>
	<u>6,980</u>	<u>4,515</u>

Out of the carrying amount of trade receivables of £3,085,000, £2,053,000 relates to 4 major customers.

Trade receivables are non-interest bearing and are generally on 30 days credit terms and are shown net of a provision for impairment. As at 31 March 2019, trade receivables at nominal value of £635,000 were determined to be impaired because of poor payment history or insolvency of the debtor and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2019 £000	2018 £000
At 1 April	(615)	(97)
Impairment losses recognised on trade receivables	(293)	(620)
Amounts written off as uncollectable	29	-
Receivables collected previously impaired	244	102
At 31 March	<u>(635)</u>	<u>(615)</u>

	2019 £000	2018 £000
Neither past due nor impaired	1,908	1,775
Past due but not impaired:		
< 30 days	575	682
30 – 60 days	25	265
60 – 90 days	42	64
90 – 120 days	(6)	31
> 120 days	(84)	124
	<u>2,450</u>	<u>2,941</u>

As of 31 March 2019, trade receivables of £3,085,000 were considered for impairment and of which an amount of £635,000 was provided with the remaining amount expected to be fully recovered. The individually impaired trade receivables mainly relate to customers who are in difficult economic situations.

	2019 £000	2018 £000
Ageing of impaired trade receivables:		
Up to 3 months	-	529
Between 3 and 6 months	1	8
More than 6 months	634	78
At 31 March	<u>635</u>	<u>615</u>

Company

	2019 £000	2018 £000
Trade receivables	2,974	3,453
Less: provision for impairment of receivables	<u>(632)</u>	<u>(610)</u>
Trade receivables net of impairment	2,342	2,843
Receivables from joint ventures	2,258	371
Prepayments and other accrued income	1,047	829
Other receivables	<u>556</u>	<u>730</u>
	<u>6,203</u>	<u>4,773</u>

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

15. Trade and other receivables (continued)

Out of the carrying amount of trade receivables of £2,974,000, £1,971,000 relates to 4 major customers.

Trade receivables are non-interest bearing and are generally on 30 days credit terms and are shown net of a provision for impairment. As at 31 March 2019, trade receivables at nominal value of £632,000 were determined to be impaired because of poor payment history or insolvency of the debtor and are fully provided for. Movements in the provision for impairment of receivables were as follows:

	2019 £000	2018 £000
At 1 April	(610)	(57)
Impairment losses recognised on trade receivables	(313)	(597)
Amounts written off as uncollectable	22	-
Receivables collected previously impaired	269	44
At 31 March	<u>(632)</u>	<u>(610)</u>
	2019 £000	2018 £000
Neither past due nor impaired	1,847	1,724
Past due but not impaired:		
< 30 days	531	678
30 – 60 days	22	260
60 – 90 days	42	52
90 – 120 days	(6)	30
> 120 days	(94)	99
	<u>2,342</u>	<u>2,843</u>

As of 31 March 2019, trade receivables of £2,974,000 were considered for impairment and of which an amount of £632,000 was provided with the remaining amount expected to be fully recovered. The individually impaired trade receivables mainly relate to customers who are in difficult economic situations.

	2019 £000	2018 £000
Ageing of impaired trade receivables:		
Up to 3 months	-	529
Between 3 and 6 months	-	7
More than 6 months	632	74
At 31 March	<u>632</u>	<u>610</u>

16. Inventories

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Aviation fuel	57	9	43	4
	<u>57</u>	<u>9</u>	<u>43</u>	<u>4</u>

17. Cash and cash equivalents

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

Group	2019 £000	2018 £000
Cash at bank	3,105	2,260
Short term deposits	-	-
	<u>3,105</u>	<u>2,260</u>

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

17. Cash and cash equivalents (continued)

Company	2019 £000	2018 £000
Cash at bank	2,895	2,056
Short term deposits	-	-
	<u>2,895</u>	<u>2,056</u>

18. Trade and other payables

Group	2019 £000	2018 £000
Loans (note 19)	748	305
Trade payables	2,233	1,443
Other creditors and accruals	6,384	6,642
	<u>9,365</u>	<u>8,390</u>

Company	2018 £000	2018 £000
Loans (note 19)	690	278
Trade payables	1,989	1,365
Amounts owed to other Group companies	515	383
Other creditors and accruals	5,781	5,832
	<u>8,975</u>	<u>7,858</u>

19. Loans

Group	2019 £000	2018 £000
Unsecured loans wholly repayable within five years, repayable in half-yearly instalments	2,644	1,671
Less repayable within twelve months (note 18)	(748)	(305)
	<u>1,896</u>	<u>1,366</u>
Instalments on the loans included above are repayable as follows:		
between one and two years	754	432
between two and five years	1,142	934
after five years	-	-
	<u>1,896</u>	<u>1,366</u>

Company	2019 £000	2018 £000
Unsecured loans wholly repayable within five years, repayable in half-yearly instalments	2,586	1,644
Less repayable within twelve months (note 18)	(690)	(278)
	<u>1,896</u>	<u>1,366</u>
Instalments on the loans included above are repayable as follows:		
between one and two years	754	432
between two and five years	1,142	934
after five years	-	-
	<u>1,896</u>	<u>1,366</u>

At 31 March 2019 the group and company had 4 loans outstanding (2018: 2). The loans are repayable to the Scottish Ministers at an interest rate between 1.73% and 2.00%. The loans are repayable over 4 years and by half yearly instalments.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Deferred subsidies

Group	2018 £000	2018 £000
Balance at 1 April	115,406	114,665
Subsidies receivable	7,685	8,635
Release to Income Statement	(7,286)	(7,895)
Release against asset disposals	-	-
Balance at 31 March	115,804	115,405
Company	2018 £000	2018 £000
Balance at 1 April	105,255	104,373
Subsidies receivable	7,346	8,455
Release to Income Statement	(7,633)	(7,573)
Release against asset disposals	-	-
Balance at 31 March	105,068	105,255

21. Financial instruments

Credit risk

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

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

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2019 and 31 March 2018 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 2019	-	8,617	-	-	-	8,617
At 31 March 2018	-	8,085	-	-	-	8,085
Borrowings						
At 31 March 2019	-	-	748	1,896	-	2,644
At 31 March 2018	-	-	305	1,366	-	1,671

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	
	2019	2018	2019	2018
	£000	£000	£000	£000
Financial assets				
Loans and receivables	-	1,730	-	1,730
Trade and other receivables	3,722	4,144	3,722	4,144
Loans receivable	2,258	371	2,258	371
Financial liabilities				
Trade and other payables	8,617	8,085	8,617	8,085
Borrowings	2,644	1,671	2,644	1,671

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

21. Financial Instruments (continued)

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

22. Pensions

The Group operates for its employees two final salary defined benefit pension schemes – the Highlands and Islands Airports Pension Scheme (HPS) and the Tayside Superannuation Fund (TSF) and one defined contribution scheme. Group member numbers of each fund at 31 March 2019 were 498 (2018: 515) and 67 (2018: 63). Both schemes are operated and located in the United Kingdom and require contributions to be made to separately administered funds.

The values of the scheme obligations have been determined by a qualified actuary based on the actuarial valuation as at 31 December 2018 for the HPS and the valuation as at 31 March 2017 for the TSF, both updated to the balance sheet date.

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

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

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

At 31 March 2018	HPS £000	TSF £000	Total £000
Scheme assets at fair value			
Equities	37,077	6,040	43,117
Gilts	12,359	424	12,783
Other bonds	35,841	987	36,828
Property	11,123	986	12,109
Diversified growth	25,954	-	25,954
Cash	1,236	242	1,478
Fair value of scheme assets	123,590	8,679	132,269
Present value of scheme liabilities	(146,806)	(10,195)	(156,801)
Defined benefit pension scheme deficit	(23,016)	(1,516)	(24,532)

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

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 2018	HPS £000	TSF £000	Total £000
Recognised in Income Statement			
Current service cost	4,781	402	5,183
Past service cost	-	-	-
Recognised in arriving at operating loss	4,781	402	5,183
Administration cost	201	2	203
Interest cost on scheme assets	(3,335)	(189)	(3,524)
Interest cost on obligations	3,979	283	4,262
Other finance cost	845	96	941

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

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

Year ended 31 March 2019	HPS £000	TSF £000	Total £000
<i>Recognised in Income Statement</i>			
Current service cost	4,803	430	5,233
Past service cost	158	95	253
Recognised in arriving at operating loss	4,961	525	5,486
Administration cost	293	4	297
Interest cost on scheme assets	(3,299)	(229)	(3,528)
Interest cost on obligations	3,867	266	4,133
Other finance cost	861	41	902

	HPS £000	TSF £000	Total £000
<i>Taken to the Statement of Comprehensive Income</i>			
Return on plan assets in excess of interest	1,797	184	1,981
Change in demographic assumptions	3,090	318	3,408
Change in financial assumptions	(7,649)	(809)	(8,258)
Actuarial losses recognised in the Statement of Comprehensive Income	(2,762)	(107)	(2,869)

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

	HPS £000	TSF £000	Total £000
Defined benefit obligation at 1 April 2018	146,606	10,195	156,801
Current service cost	4,803	430	5,233
Past service cost	158	95	253
Interest cost	3,867	266	4,133
Benefits paid	(2,774)	(52)	(2,826)
Contributions by scheme participants	837	89	926
Change in demographic assumptions	(3,090)	(318)	(3,408)
Experience loss on liabilities	-	-	-
Change in financial assumptions	7,649	609	8,258
Defined benefit obligation at 31 March 2019	158,056	11,314	169,370

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

22. Pensions (continued)

Changes in the fair value of scheme assets are analysed as follows:

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

	HPS £000	TSF £000	Total £000
Fair value of scheme assets at 1 April 2018	123,590	8,679	132,269
Interest on scheme assets	3,299	229	3,528
Contributions by employer	3,510	222	3,732
Contributions by scheme participants	837	89	926
Benefits paid	(2,774)	(52)	(2,826)
Administration costs	(293)	(4)	(297)
Other actuarial gains	-	-	-
Return on plan assets less interest	1,797	184	1,981
Fair value of scheme assets at 31 March 2019	<u>129,966</u>	<u>9,347</u>	<u>139,313</u>

The Group expects to contribute £3,808,000 to its defined benefit pension plans in 2019/20.

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 2019 (%)	2018 (%)	TSF 2019 (%)	2018 (%)
<i>Main assumptions:</i>				
Rate of salary increases	2.20	2.10	3.35	3.30
Rate of increase in pensions in payment*	3.30	3.20	2.35	2.30
Discount rate	2.65	2.65	2.45	2.60
RPI Inflation	3.30	3.20	3.35	3.30

*HPS only - Pensions in payment increase in line with RPI for service accrued prior to October 2012 and CPI for service after October 2012. The assumed rate of increase is 3.30% for RPI and 2.20% for CPI.

Discount rate

The discount rate on the HPS and the TSF scheme is the yield on the Merrill Lynch AA Corporate Bond Index at a term of at least 25 years.

Mortality

For both schemes, the mortality rates have been updated to be based on the most recent results of the actuarial valuations.

For the HPS, the S2PA table has been used making allowance for future improvements to be in line with the 2018 CMI projection model with a long term improvement rate of 1.5% per annum and the projection is made based on the individual year of birth of each member.

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

22. Pensions (continued)

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

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

Sensitivities

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

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	129,966	129,966	129,966
Present value of defined benefit obligation	(164,166)	(178,616)	(179,552)
Defined benefit pension scheme deficit	(34,200)	(48,650)	(49,586)

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	446	472	474	443
Present value of defined benefit obligation	11,011	11,625	11,707	10,934

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

	HPS £000	TSF £000	Total £000
Current service cost	5,139	459	5,598
Net interest in defined benefit liability	720	46	766
Administration expenses	293	4	297
Total	6,152	509	6,661

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

	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000
HPS					
Fair value of scheme assets	129,966	123,590	118,857	101,224	101,198
Present value of defined benefit obligation	(158,056)	(146,806)	(143,132)	(122,657)	(126,211)
(Deficit)	(28,090)	(23,016)	(24,275)	(21,433)	(25,013)
Experience adjustment on plan liabilities	-	(639)	-	-	-
Experience adjustments on plan assets	1,797	924	11,991	(5,356)	7,886
	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000
TSF					
Fair value of scheme assets	9,347	8,679	6,613	5,154	4,950
Present value of defined benefit obligation	(11,314)	(10,195)	(10,101)	(6,497)	(6,815)
(Deficit)	(1,967)	(1,516)	(3,488)	(1,343)	(1,865)
Experience adjustment on plan liabilities	-	(325)	-	-	(72)
Experience adjustments on plan assets	184	405	1,001	(244)	355

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

23. Share capital

	Group and Company	
	2019 £000	2018 £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.

24. Cash generated by/(used in) operations

	2019 £000	2018 £000
Operating loss	(2,402)	(2,205)
Amortisation and impairment of intangibles	-	-
Depreciation of property, plant and equipment	7,917	7,938
Decrease/(increase) in inventories	(14)	1
(Increase)/Decrease in trade and other receivables	422	(624)
Decrease in trade and other payables	534	(358)
Deferred subsidies released	(7,286)	(7,895)
Fair value movement on investment properties	197	269
Difference between pension contributions and charges	1,754	2,260
Gain on disposal of property, plant and equipment	(30)	(28)
Cash (used in)/generated by operations	1,092	(642)

25. Obligations under leases and hire purchase contracts

Operating lease agreements where the Group and Company is the lessee

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

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

	2019 £000	2018 £000
Not later than one year	57	51
Later than one year and not later than five years	210	58
Later than five years	312	-
	579	109

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

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

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

	2019 £000	2018 £000
Not later than one year	415	712
Later than one year and not later than five years	-	414
Later than five years	-	-
	415	1,126

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

26. Related party disclosure

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

Related party		Sales to	Purchases	Amounts	Amounts owed
		related	from	owed by	to related party
		party	related	related party	to related party
		£000	party	£000	£000
Joint ventures:-					
Inverness Airport Business Park Ltd	2019	2	1	396	0
	2018	2	7	371	1
In relation to key management personnel:-					
Caledonian Air Surveys Ltd	2019	3	-	-	-
	2018	3	-	-	-
Director: T Whittome	2019	1	-	-	-
	2018	1	-	-	-
Caledonian Maritime Assets Ltd	2019	-	60	-	15
	2018	-	57	-	34
The Law Society of Scotland	2019	-	21	-	-
	2018	-	14	-	2
Intercompany Balances					
DAL	2019	445	-	445	398
	2018	421	-	442	20
AMSL	2019	254	6,634	-	117
	2018	171	6,661	-	383

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

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

Loans to related party		Amounts owed by related party
		£000
Joint ventures		
Inverness Airport Business Park Ltd.	2019	-
	2018	1,608

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

Controlling party

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

27. Commitments and contingencies

Capital Commitments

At 31 March 2019, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £957,000 for the Group (2018: £3,670,000) and £919,000 for the Company (2018: £3,111,000).

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 2019. The risk of default by this joint venture is considered low, and as such the initial fair value of this guarantee has been assessed as £nil.

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

HIGHLANDS AND ISLANDS AIRPORTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

26. Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2018 and 31 March 2019.

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



www.hial.co.uk



Annual Report & Financial Statement
1 April 2018 - 31 March 2019