SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

Report and Financial Statements for the Year Ended 31 March 2006

Company Registration Number 2431858

REPORT AND FINANCIAL STATEMENTS 2006

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

C Butler	-	Managing Director
M Ewing	-	Director
D S Garrood	-	Director
R D Herga	-	Alternate Director

SECRETARY

S Welch	-	appointed 1 June 2006

REGISTERED OFFICE

130 Wilton Road
London
SW1V 1LQ

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
WC2N 6RH

BANKERS

Barclays Bank Plc
PO Box 544
54 Lombard Street
London
EC3V 9EX

SOLICITORS

Herbert Smith
Exchange House
Primrose Street
London
EC2A 2HS

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for Southampton International Airport Limited ("the Company") for the year ended 31 March 2006 ("the year").

PRINCIPAL ACTIVITIES

The Company owns and is the licensed operator of Southampton International Airport.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

During the year passenger numbers increased by 20% to 1.9 million. Total income grew by £4m (22.8%) to £22m, - the increase arising in airport charges (2.9m) and retail income (£1.2m). Costs increased by 23% to £2.6m, primarily reflecting the growth of the airport.

New routes in the year included; Rennes, Liverpool, Bordeaux, Sardinia, Berne and Faro.

Capital expenditure in the year amounted to £5.5m, the major project being the extension and re-fitting of the Departure Lounge.

During the next 12 months, the main area for development will relate to upgrading the baggage facilities to enable terminal growth up to 3 million passengers per annum whilst maintaining the airports fast track characteristic together with its excellent service levels.

Southampton International Airport anticipate continued growth in areas of passenger traffic, retail and new routes. They will continue to ensure the airport meets customer expectations both safely and profitably.

RESULTS AND DIVIDENDS

The profit for the year before taxation amounted to £8.6 million (2005: £6.9 million).

The directors do not recommend the payment of a dividend (2005: £nil).

The retained profit for the financial year of £5.9 million (2005: £4.8 million) has been transferred to reserves.

REPORT OF THE DIRECTORS (continued)

BOARD OF DIRECTORS

The directors who served during the year and since the year end are as follows:

C Butler	Managing Director (appointed 1 January 2006)
D J Cumming	Managing Director (resigned 1 January 2006)
M Ewing	
D S Garrood	
P D Griffiths	(resigned 7 June 2005)
R D Herga	alternate to M Ewing

DIRECTORS' INTERESTS

The interests of the directors holding office at the year end in the ordinary shares of BAA plc are set out in Note 4 to the financial statements, with the exception of those directors disclosed in the accounts of BAA plc.

EMPLOYEES

The Company has no direct employees. The staff are employed by BAA plc which is the Company's ultimate parent company.

PAYMENT PRACTICE

The Company's policy is to follow the DPEI's (formerly DTI) Better Payment Practice Code which is reproduced in the report and accounts of BAA plc. The Company had 25 days purchases outstanding at 31 March 2006 (2005: 31 days) based on the average daily amount invoiced by suppliers during the year ended 31 March 2006.

ECONOMIC AND MONETARY UNION

An outline implementation strategy for the introduction of the euro if and when the UK elects to join the EMU has been developed and is under continual review. It is too early to estimate the costs to the Company of the UK joining the euro, however the Company continues to ensure that new systems being introduced to the business are euro compliant.

The Company's policy is that while the UK remains outside of the euro and sterling is floating freely the Company will:

- Treat the euro as another foreign currency
- Raise invoices and require settlement in sterling
- Settle liabilities according to the currency of the contract

REPORT OF THE DIRECTORS (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The Company actively manages all identified corporate risks, and the principal ones are:

- Safety and security risk in operations is regarded as important and is mitigated by rigorous policy procedures supported by professional training.
- The penalties for failing to comply with the 1988 Competition Act and relevant EU law are recognised as risks to manage within the Company, given the group's dominant position in UK Airports.
- The Company recognises that environment risks can impact on it's reputation and licence to operate and expand. There is an active environment management system to mitigate these risks.
- The Company recognises that failure to control and deliver key capital projects could have an adverse financial effect. These risks are mitigated by a rigorous six monthly review of all projects.
- The Company recognises that there is a risk in that unanticipated long-term changes in passenger demand could lead to misaligned operational capacity. To mitigate this risk, the Company participates in group scenario planning exercises to evaluate the effects of such possible changes.
- There is a risk that industrial action by key staff that affects critical services and/or critical operations could have an adverse financial and reputational effect. The Company seeks to mitigated this risk by participating in the group's Joint National Forum with the trade unions to discuss a wide range of issues.

Further details of the risk management policies can be found in the financial statements of BAA plc.

FINANCIAL RISK MANAGEMENT

The Company deposits funds with, and borrows funds from, the ultimate parent, BAA plc, on a daily basis and either pays or receives interest on such funds at LIBOR + 1.5%.

Details of the treasury policies of the ultimate parent are given in the financial statements of BAA plc.

REPORT OF THE DIRECTORS (continued)

AUDIT INFORMATION

The directors are satisfied that the auditors are aware of all information relevant to the audit of the Company's financial statements for the year ended 31 March 2006 and that they have taken all the steps that they ought to have taken as directors in order to make them aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

A resolution has been passed to dispense with the obligation to appoint auditors annually in accordance with Section 386 of the Companies Act 1985. Accordingly, PricewaterhouseCoopers LLP shall be deemed to be re-appointed as auditors 28 days after the accounts are sent to the members.

By order of the Board

Susan Welch

S Welch
Company Secretary

16 August 2006

Registered Office:
130 Wilton Road
London
SW1V 1LQ

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those 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 accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy, the financial position of the Company, and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

We have audited the financial statements of Southampton International Airport Limited for the year ended 31 March 2006 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED (Continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006 and of its profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

21 August 2006

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Revenue – continuing operations	2	22,022	17,932
Operating costs	3	(13,231)	(10,692)
Operating profit – continuing operations		8,791	7,240
Net interest payable	5	(197)	(298)
Profit on ordinary activities before taxation		8,594	6,942
Tax on profit on ordinary activities	6	(2,653)	(2,182)
Retained profit on ordinary activities after taxation for the financial year	13	5,941	4,760

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Profit for the financial year		5,941	4,760
Unrealised revaluation surplus	13	9,983	8,096
Total recognised gains and losses relating to the year		15,924	12,856

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Profit for the financial year	13	5,941	4,760
Other net recognised gains and losses relating to the year		9,983	8,096
Net addition to shareholders' funds		15,924	12,856
Opening shareholders' funds		70,152	57,296
Closing shareholders' funds		86,076	70,152

BALANCE SHEET AT 31 MARCH 2006

	Note	2006 £'000	2005 £'000
FIXED ASSETS			
Tangible assets	7	98,274	84,297
CURRENT ASSETS			
Stocks	8	66	135
Debtors	9	3,308	4,085
TOTAL CURRENT ASSETS		3,374	4,220
CREDITORS:			
- amounts falling due within one year	10	(9,181)	(12,709)
NET CURRENT LIABILITIES		(5,807)	(8,489)
TOTAL ASSETS LESS CURRENT LIABILITIES		92,467	75,808
Provisions for liabilities and charges	11	(6,391)	(5,656)
NET ASSETS		86,076	70,152
CAPITAL AND RESERVES			
Called up share capital	12	40,000	40,000
Revaluation reserve	13	30,612	20,629
Profit and loss account	13	15,464	9,523
EQUITY SHAREHOLDERS' FUNDS		86,076	70,152

These financial statements were approved by the Board of Directors on 16 August 2006 and signed on behalf of the Board.

D S Garrood
Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006

1. ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with all applicable United Kingdom accounting standards.

Changes in accounting policy

The Company has adopted FRS 21, 'Events after the balance sheet date', FRS 25, 'Financial *instruments: disclosure and presentation*' and FRS 28 '*Corresponding amounts*' *in these financial* statements. The adoption of these standards represents a change in accounting policy. However, there was no impact in 2006 or in 2005 following these changes in accounting policy.

Revenue

Revenue is recognised in accordance with Financial Reporting Standard 5 application note G, net of VAT, and comprises:

- Airport and other traffic charges
  - Passenger charges levied on departing passengers
  - Aircraft landing charges levied according to weight
  - Aircraft parking charges based on a combination of weight and time parked
  - Other charges levied for passenger and baggage handling
- Property and operational facilities
  - Property letting sales recognised on a straight-line basis over the term of the rental period
  - Usage charges made for the operational systems (e.g. check-in desks), recognised as each service is provided
  - Other invoiced sales, recognised on the performance of the service
- Retail
  - Concession fees based upon turnover certificates supplied by concessionaires.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2006

1. ACCOUNTING POLICIES (continued)

Fixed assets

(i) Operational assets

Terminal complexes, airfield assets, plant and equipment and Company occupied properties are stated at cost less accumulated depreciation. Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction-related project management, and directly attributable overheads. Projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Company. The Company reviews these projects on a regular basis, and at least every six months, to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

(ii) Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is valued at the balance sheet date at open market value. All investment properties are revalued annually by the directors and at least once every five years by external valuers. Any surplus or deficit on revaluation is transferred to revaluation reserve except that deficits below original cost which are expected to be permanent are charged to the profit and loss account.

Profits or losses arising from the sale of investment properties are calculated by reference to book value and treated as exceptional items. Profits are recognised on completion.

In accordance with SSAP No. 19, Accounting for Investment Properties, no depreciation is provided in respect of freehold or long leasehold investment properties. This is a departure from the Companies Act 1985 which requires all properties to be depreciated. Such properties are not held for consumption but for investment and the directors consider that to depreciate them would not give a true and fair view. Depreciation is only one amongst many factors reflected in the annual valuation of properties and accordingly the amount of depreciation which might otherwise have been charged cannot be separately identified or quantified. The directors consider that this policy results in the accounts giving a true and fair view.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006 (continued)

1. ACCOUNTING POLICIES (continued)

(iii) Depreciation

Depreciation is provided on operational assets, other than land, to write off the cost of the assets by equal instalments over their expected useful lives as follows:

• Terminal building, pier and satellite structures	up to 50 years
• Terminal fixtures and fittings	5 - 20 years
• Airport plant and equipment:	
• baggage systems	15 years
• screening equipment	7 years
• lifts, escalators, travelators	up to 25 years
• other plant and equipment including runway lighting and building plant	5 - 20 years
• Airport tunnels, bridges and subways	up to 100 years
• Runway surfaces	10 - 15 years
• Runway bases	up to 100 years
• Taxiways and aprons	50 years
• Motor vehicles	4 - 8 years
• Office equipment	5 - 10 years
• Computer equipment	4 - 5 years
• Computer software	3 - 7 years
• Short leasehold properties	over period of lease

Capitalisation of interest

Interest payable is charged as incurred except where the borrowing finances tangible fixed assets in the course of construction. Such interest is capitalised once planning permission has been obtained and a firm decision to proceed has been taken until the asset is complete and ready for use. It is charged to the profit and loss account as depreciation over the life of the relevant asset.

Stocks

Raw materials and consumables consist of engineering spares and other consumable stores and are valued at the lower of cost and net realisable value.

Deferred taxation

In accordance with Financial Reporting Standard 19, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006

1. ACCOUNTING POLICIES

Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Pensions

All employees are employed directly by BAA plc, the Company's ultimate parent undertaking, and are entitled to join the BAA plc defined benefit pension scheme. The Company is recharged the relevant amount of staff costs, including pension service costs, which are charged to the Profit & Loss account as incurred.

The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. The Group deficit amounted to £124 million. Full details of the BAA plc pension scheme can be found in the BAA plc annual financial statements.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Cash flow statement

The Company is a wholly-owned subsidiary of BAA plc and is included in the consolidated financial statements of BAA plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2006

2. SEGMENTAL ANALYSIS

Revenue	2006 £'000	2005 £'000
Airport and other traffic charges	13,067	10,171
Retail	6,735	5,580
Property and operational facilities	1,555	1,497
Other	665	684
	22,022	17,932

All revenue arises in the United Kingdom. The majority of the operating costs and net assets relate to more than one segment. In the opinion of the directors it would be misleading to apportion operating costs and net assets to individual segments.

3. OPERATING COSTS FROM CONTINUING OPERATIONS

	2006 £'000	2005 £'000
Staff costs:		
Wages and salaries	5,041	4,529
Social security costs	398	326
Pension costs	846	702
Other staff related costs	621	583
	6,906	6,140
Retail expenditure	8	7
Depreciation	1,643	1,342
Maintenance expenditure	1,266	997
Rent and rates	771	633
Utility costs	870	420
General expenses	945	425
Other intra-group charges	856	592
	13,265	10,556
(Profit) / loss on disposals of tangible fixed assets	(34)	136
	13,231	10,692

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2006

3. OPERATING COSTS FROM CONTINUING OPERATIONS (CONTINUED)

Operating costs include:	2006 £'000	2005 £'000
Training expenditure	51	94
Rentals under operating leases		
- Hire of plant and machinery	13	14
- Other operating leases	27	23
Auditors' remuneration		
- Audit fees	9	13
Legal and other professional fees	37	58

Employee information

The Company has no employees. All staff costs are borne by BAA plc which levies a management charge inclusive of staff costs.

The average number of employees of BAA plc engaged in the operation of Southampton Airport during the year was 206 (2005: 188).

Employee information including disclosure relating to FRS 17 and BAA plc's pension schemes is disclosed in the financial statements of BAA plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2006

4. DIRECTORS' EMOLUMENTS

	2006 £'000	2005 £'000
Directors' emoluments		
(excluding pension contributions and awards under share option schemes and other long term incentive schemes)	93	176

Number of directors who:	2006 No.	2005 No.
· are members of a defined benefit pension scheme	5	4
· exercised share options	1	2
· have received awards during the year in the form of shares under the deferred annual bonus scheme	1	4

M Ewing was a director of BAA plc during both financial years and her remuneration is paid by BAA plc and disclosed in its financial statements. The directors do not believe it is possible to apportion this to individual companies within the Group based on services provided.

One of the directors was a director of Gatwick Airport Limited and their remuneration is shown in that Company's financial statements.

Three directors (2005: two directors) did not receive any emoluments in their capacity as directors of the Company.

Directors' interests

The interests of the directors holding office at the year end in the ordinary shares of BAA plc are set out below:

	SHARES		OPTIONS				
	1 April 2005 (or date of appointment if later)	31 March 2006	1 April 2005 (or date of appointment if later)	Granted during the year	Cancelled during the year	Exercised during the year	31 March 2006
C Butler	121	121	85,193	-	-	15,882	69,311
D S Garrood	171	404	3,584	-	-	-	3,584
R D Herga	1,800	2,334	116,306	-	-	28,236	88,070

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2006

4. DIRECTORS' EMOLUMENTS (continued)

In addition, the interests of the directors holding office at the year end in the ordinary shares of BAA plc held under the BAA Deferred Annual Bonus Plan ("DAB") are set out below:

	1 April 2005 (or date of appointment if later)		31 March 2006	
	No of shares purchased	No of matching shares to be awarded at end of 3 year qualifying period	No of shares purchased	No of matching shares to be awarded at end of 3 year qualifying period
D S Garrood	1,041	1,764	1,041	1,764
R D Herga	3,625	5,895	4,553	7,712

Details of the DAB are given in the Annual Report of the ultimate parent company, BAA plc.

The interests of the directors holding office at the year end in the ordinary shares of BAA plc held under the BAA ("PSP") are set out below:

	SHARES		**OPTIONS**				
	1 April 2005 (or date of appointment if later)	31 March 2006	1 April 2005 (or date of appointment if later)	Granted during the year	Cancelled during the year	Exercised during the year	31 March 2006
C Butler	-	-	19,563	-	-	-	19,563
D S Garrood	-	-	54,463	34,097	-	-	88,560
R D Herga	-	-	13,479	12,958	-	-	26,437

Details of the PSP are given in the Annual Report of the ultimate parent company, BAA plc.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006 (continued)

4. DIRECTORS' EMOLUMENTS *(continued)*

BAA Employee Share Trust ("BEST")

The BEST is a discretionary trust which acquires and holds ordinary shares in BAA plc for subsequent transfer to employees who exercise share options or receive share awards under the BAA plc employee share schemes. By virtue of the provisions of the Companies Act 1985, each director, as a potential beneficiary of the BEST, is deemed to have an interest in the ordinary shares in the Company in which the BEST is interested as shown in the table below:

	31 March 2006	1 April 2005
Interest in shares through derivative contracts	690,603	5,027,756

The number of shares held by the BEST, in which the directors were interested, had reduced to 217,684 by 11 August 2006.

The interests of M Ewing are disclosed in the Report and Accounts of BAA plc, the Company's ultimate parent company.

No director had any interest in the shares of the Company or any other subsidiary of BAA plc at any time during the year.

5. NET INTEREST PAYABLE

Interest payable	2006 £'000	2005 £'000
Payable to ultimate parent undertaking:		
On current loans	(375)	(360)
Interest capitalised	178	62
Net interest payable	(197)	(298)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006 (continued)

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Note	2006 £'000	2005 £'000
United Kingdom Corporation tax			
Current at 30% (2005: 30%)		2,078	1,706
– prior year		(160)	178
Total current tax charge		1,918	1,884
Deferred-origination and reversal of timing differences	11		
– current year		571	485
– prior year		164	(187)
		2,653	2,182

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 30% (2005: 30%). The actual tax charge for the current year and prior year is less than 30% for the reasons set out in the following reconciliation:

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	8,594	6,942
Tax on profit on ordinary activities at 30%	2,578	2,083
Factors affecting charge:		
Permanent differences	71	108
Capital allowances for the year in excess of depreciation	(476)	(356)
Capitalised interest	(53)	(19)
Other short term timing differences	(42)	(110)
Adjustments to tax charge in respect of prior years	(160)	178
Current tax charge for the year	1,918	1,884

Other than unprovided deferred tax discussed in the paragraph below and Note 11, there are no items which would materially affect the future tax charge.

No provision has been made for deferred tax on gains recognised on revaluing investment property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Taxable gains will crystallise only if the property were sold without it being possible to claim rollover relief. The total amount of tax unprovided for is £8.7 million (2005: £5.8 million).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006 (continued)

7. TANGIBLE ASSETS

	Investment properties £'000	Terminal complexes £'000	Airfields £'000	Group occupied properties £'000	Plant, equipment & other assets £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation							
1 April 2005	35,570	10,395	32,736	4,244	11,261	3,343	97,549
Additions at cost	-	44	-	-	37	5,455	5,536
Transfers to completed assets	(23)	5,661	287	964	15	(6,904)	-
Interest capitalised	-	-	-	-	-	178	178
Revaluation	9,983	-	-	-	-	-	9,983
Disposals	-	(99)	-	(3)	-	-	(102)
31 March 2006	45,530	16,001	33,023	5,205	11,313	2,072	113,144
Depreciation							
1 April 2005	-	2,048	2,744	909	7,551	-	13,252
Charge for the year	-	580	333	187	543	-	1,643
Disposals	-	(22)	-	(3)	-	-	(25)
31 March 2006	-	2,606	3,077	1,093	8,094	-	14,870
Net book value							
31 March 2006	45,530	13,395	29,946	4,112	3,219	2,072	98,274
31 March 2005	35,570	8,347	29,992	3,335	3,710	3,343	84,297

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006 (continued)

7. TANGIBLE ASSETS (continued)

Valuation

Investment properties and land held for development were valued at open market value at 31 March 2006 by Drivers Jonas, Chartered Surveyors at £45.5 million. These valuations were prepared in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors taking account, inter alia, of planning constraints and reflecting the demand for airport related uses. As a result of the valuation, a surplus of £10.0 million has been transferred to revaluation reserve.

Remaining group occupied properties, terminal complexes, airfield infrastructure, plant and equipment, and other assets, have been shown at historical cost.

Capitalised interest

Included in the cost of assets after depreciation are interest costs of £0.7 million (2005: £0.6 million). £0.2 million (2005: £0.1 million) has been capitalised in the year at a capitalisation rate of 5.2% (2005: 4.31%) based on a weighted average of borrowings.

A tax deduction of £0.2 million for capitalised interest was taken in the year. Subsequent depreciation of the capitalised interest is disallowed for tax purposes, consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Historical cost

The historical cost of investment properties and land held for development at 31 March 2006 was £14.9 million (2005: £14.9 million).

Leased assets

The Company had assets rented to third parties under operating leases as follows:

	2006 £'000	2005 £'000
Cost or valuation	45,530	35,570
Accumulated depreciation	-	-
Net book amount	45,530	35,570

A significant proportion of freehold property is occupied by third parties under concession and management agreements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006 (continued)

8. STOCKS

	2006 £'000	2005 £'000
Raw materials and consumables	66	135

The replacement cost of raw materials and consumables at 31 March 2006 and 2005 was not materially different than the amount at which they are included in the accounts.

9. DEBTORS

	2006 £'000	2005 £'000
Due within one year:		
Trade debtors	2,229	2,775
Amounts owed by group undertakings	132	81
Other debtors	937	1,227
	3,298	4,083
Due after more than one year:		
Other debtors	10	2
	3,308	4,085

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £'000	2005 £'000
Trade creditors	1,853	2,633
Capital creditors	942	1,800
Amount owed to ultimate parent undertaking	5,207	7,204
Corporation tax payable	952	906
Other creditors	3	3
Deferred income	224	163
	9,181	12,709

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006 (continued)

11. PROVISIONS FOR LIABILITIES AND CHARGES

	Note	Deferred Tax £'000
1 April 2005		5,656
Charge to profit and loss account	6	735
31 March 2006		6,391

Analysis of the deferred tax balances are as follows:

	2006 £'000	2005 £'000
Excess of capital allowances over depreciation	6,367	5,666
Other timing differences	24	(10)
	6,391	5,656

	Unprovided 2006 £'000	2005 £'000
Tax on chargeable gains if investment properties were sold at their current valuations	8,707	5,814

The deferred taxation liabilities have been computed at the expected long term rate of 30% (2005: 30%).

Provision has been made for deferred taxation in accordance with FRS 19.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006 (continued)

12. CALLED UP SHARE CAPITAL

	2006 £'000	2005 £'000
Authorised		
50,000,000 ordinary shares of £1 each	50,000	50,000
Called up, allotted and fully paid		
40,000,002 ordinary shares of £1 each	40,000	40,000

13. RESERVES

	Profit and loss account £'000	Revaluation reserve £'000	Total £'000
1 April 2005	9,523	20,629	30,152
Retained profit for financial year	5,941	-	5,941
Revaluation surplus	-	9,983	9,983
31 March 2006	15,464	30,612	46,076

14. FUTURE COMMITMENTS

Capital

Future capital expenditure contracted commitments amount to £103,000 (2005: £nil).

Commitments under operating leases

At 31 March 2006, the Company was committed to making the following payments during the next year in respect of operating leases.

	Land & buildings 2006 £'000	Other leases 2006 £'000	Land & buildings 2005 £'000	Other leases 2005 £'000
Leases which expire:				
- within one year	-	-	-	5
- within two to five years	1	7	2	7
	1	7	2	12

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2006 (continued)

15. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

The ultimate parent undertaking and controlling entity as at 31 March 2006 was BAA plc, a company registered in England and Wales.

The only group of companies which includes the Company and for which group accounts are prepared, is the BAA plc group. Copies of the financial statements of BAA plc may be obtained by writing to the Company Secretary at 130 Wilton Road, London, SW1V 1LQ.

16. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption granted by paragraph 3c of Financial Reporting Standard No. 8 not to disclose related party transactions with BAA plc group companies.

17. POST BALANCE SHEET EVENT

On 26 June 2006, Airport Development and Investment Limited, a company held by a consortium formed at the direction of Ferrovial Infraestructura, S.A., Casisse De Depot Et Placement Du Quebec, and GIC Special Investments Pte Ltd, otherwise referred to as the Ferrovial Consortium, announced that it had acquired control of BAA plc.

AIRPORTS ACT 1986

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

YEAR ENDED 31 MARCH 2006

The following information is disclosed in accordance with the accounts conditions imposed under Section 40(1) (a) of the Airports Act 1986.

Statement A: Operational/Non - Operational Trading Results
Statement B: Principles of Cost Allocation
Statement C: Connected Party Transactions
Statement D: Auditors' Special Report

The information in Statements A, B and C attached, was approved by the Board of Directors on 31 October 2006.

Director: ....
D S Garrood

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

STATEMENT A

Operational/Non-operational trading results in accordance with Conditions 3 and 4 for the year ended 31 March 2006.

	Income	Expenditure	Profit before tax and interest
	£'000	£'000	£'000
Operational activities			
Airport charges	13,068	9,322	3,745
Other operational activities	8,955	3,909	5,046
Total operational activities	22,022	13,231	8,791
Non operational activities	-	-	-
Total	22,022	13,231	8,791

These disclosures have been prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets and are in accordance with the accounting policies disclosed within the Southampton International Airport Limited financial statements for the year ended 31 March 2006.

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

STATEMENT B

Broad principles of cost allocation in accordance with Conditions 2 and 3 for the year ended 31 March 2006.

Costs have been allocated into the following categories:

Airport charges
Other operational activities
Non-operational activities

Airport charges comprise all activities in respect of which airport charges are levied. Airport charges comprise landing charges, passenger charges, and aircraft parking charges. All other activities are classified as other operational activities except for the provision and operation of facilities for commercial advertising, spectator areas and some miscellaneous services.

The majority of the income and direct costs are directly allocated to each activity. Other support costs which cannot be directly attributed are allocated between activities as indirect charges or overheads on appropriate bases. These include:

Direct expenditure excluding depreciation
Area occupied
Staff deployed

Total costs include costs incurred by BAA plc. Those costs which are assessed according to the usage are attributed to subsidiaries on that basis. The remaining BAA plc costs are allocated to subsidiaries proportionately on the basis of operating profit subject to a minimum charge of £100,000. Within the Company these costs are allocated between activities as overheads.

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

STATEMENT C

Disclosure transactions in accordance with Condition 1 for the year ended 31 March 2006.

BAA plc Costs

The Company is charged by BAA plc £646,300 for services supplied in carrying out the Company's business. This charge includes those costs which are assessed according to usage and are attributed to Southampton International Airport Limited and other fellow subsidiaries on that basis. Other parent company charges include items of expenditure relating directly to the Company which have been charged to the Company. The remaining BAA plc costs cannot be separately attributed on a usage basis because of the nature of the services supplied and have therefore been allocated proportionately on the basis of operating profit subject to a minimum charge of £100,000.

Inter Company account

The Company's funding is met by an inter-company account with BAA plc. Interest on the current account is charged or credited to the net borrowing calculated at the last day of each month on the balance at the beginning of the month at a percentage rate derived from Barclays Bank plc base rate plus 1.5%.

The interest rate prevailing on the account at 31 March 2006 was 6.00%

During the year ended 31 March 2006, the aggregate minimum borrowing was £3.4m at 28 February 2006. The aggregate maximum borrowing was £8.6m at 30 June 2005.

Other transactions

There were no other material transactions which would require disclosure under Condition 1 of the accounts conditions.

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

STATEMENT D

Report in respect of the Accounts Conditions Statements for Southampton International Airport Limited ("the Airport")

We have reviewed the Accounts Conditions Statements for Southampton International Airport Limited for the year ended 31 March 2006 ("the Statements") in accordance with our engagement letter between the Civil Aviation Authority ("the CAA") and Southampton International Airport Limited ("the Airport") of 16 August 2004 ("engagement letter"). A copy of the Statements, which is the responsibility of the directors, is attached to this report.

Our report is made solely to the Airport and the CAA in accordance with our engagement letter. Our work has been undertaken so that we might report to the Airport and the CAA those matters we are required to state to them in this report in accordance with the engagement letter and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Airport and the CAA for our work, for this report or for the opinions we have formed.

We carried out the following procedures:

- Obtained a copy of the Accounts Conditions Statements as prepared by the Airport's directors;

- Obtained a copy of the audited Financial Statements of the Airport for the year under review, formally approved by the Airport's directors and, agreed the total amount of income, expenditure and profit before interest and tax to Statement A of the Accounts Conditions Statements;

- Identified and understood the process in place by which the Airport's directors compiled the Statements and the factors they considered in compiling the Statements;

- Reviewed the application of the Principles of Cost Allocation in Accounts Condition Statement B, used in the preparation of Statement A;

- Verified that the financial information provided in Accounts Condition Statements A and C has been accurately extracted from the Airport's books and records;

- Recalculated, where appropriate, any calculations in the Statements A, B and C;

- Verified the allocations of income, expenditure and profit before interest and tax to Statement B ;

- Ensured that any necessary amendments to the Statements arising from the above work were correctly reflected in the final Statements approved by the Directors

Based on the procedures carried out:

- the information presented in the Statements has been properly extracted from the books and records of the Airport, and is arithmetically accurate;

- the Statements have been compiled in accordance with the process established by the Airport's directors for preparing the Statements.

We are the current auditors of the Airport. We do not accept, or assume responsibility to anyone other than the Airport and the Airport's members as a body, for our audit work, for our audit report(s) or for the opinions we have formed. The statutory audit is undertaken in order that we might report to the Airport's members, as a body, in accordance with Section 235 of the Companies Act 1985 on whether the financial statements of the Airport, which are the sole responsibility of the Airport's directors, give a true and fair view of the state of affairs of the Airport as at the end of the relevant financial year and for no other purpose.

Third party

Our report is addressed to you and is provided solely for your use and benefit and only in connection with the purpose set out in the engagement letter. Unless required by law, you shall not provide our report, or a copy thereof, in whole or in part, to any other person or party or refer to us or the Services without our prior written consent, which we may at our discretion grant, withhold or grant subject to conditions. In no event, regardless of whether consent has been provided, shall we assume any liability or responsibility to any third party to which any report or letter is disclosed or otherwise made available.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Glasgow
29 November 2006