SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

Report and Financial Statements
for the nine month period ended 31 December 2006

Company Registration Number 2431858

REPORT AND FINANCIAL STATEMENTS

FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2006

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

S R Baxter	-	Chairman
C Butler	-	Managing Director
R D Herga	-	Alternate Director
J Leo		

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 dırectors present theır annual report and the audıted financıal statements for Southampton Internatıonal Aırport Lımıted ("the Company") for the nıne month penod ended 31 December 2006 ("the penod")

The Company's accountıng reference date has been changed to 31 December to alıgn wıth that of ıts new parent (Note 15)

PRINCIPAL ACTIVITIES

The Company owns and ıs the lıcensed operator of Southampton Internatıonal Aırport

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

Durıng the nıne months to December 2006 commercıal passenger numbers ıncreased by 3 6% to 1 56m, as compared to the same penod ın the prevıous year Flybe contınued to experıence sıgnıficant growth ın terms of both passenger throughput and the ıntroductıon of new routes, comparıng thıs penod wıth the same penod ın the prevıous year

Southampton's capıtal ınvestment programme ıs targeted at supportıng the development of capacıty, ımproved passenger facılıtıes and the upgradıng of accommodatıon for our busıness partners Capıtal expendıture ın the penod amounted to £3 4m

Lookıng forward, Southampton Aırport wıll be developıng ıts facılıtıes ın the context of the outlıne proposals contaıned wıthın the Aırport Master Plan whıch was publıshed ın November 2006 after consıderable consultatıon wıth stakeholder groups

RESULTS AND DIVIDENDS

The profit for the penod before taxatıon amounted to £6 1 mıllıon (year to 31 March 2006 £8 6 mıllıon)

The dırectors do not recommend the payment of a dıvıdend (year to 31 March 2006 £nıl)

The retaıned profit for the financıal penod of £4 1 mıllıon (year to 31 March 2006 £5 9 mıllıon) has been transferred to reserves

REPORT OF THE DIRECTORS (continued)

BOARD OF DIRECTORS

The dırectors who served dunng the penod and sınce the penod end are as follows

S R Baxter	Chaırman - appoınted 27 October 2006
C Butler	Managıng Dırector
M Ewıng	resıgned 4 October 2006
D S Garrood	resıgned 27 October 2006
R D Herga	alternate to J Leo
J Leo	appoınted 4 October 2006

DIRECTORS' INTERESTS

The Company ıs exempted from dısclosıng ınterests of the dırectors ın the share capıtal of the ultımate parent company by vırtue of the Companıes (Dısclosure of Dırector's Interests) (Exemptıons) Regulatıon 1985 (SI 1985 no 802)

None of the dırectors had any ınterests ın the ordınary shares of the Company at the end of the penod or at any tıme dunng the penod None of the dırectors had a matenal ınterest ın any contract of sıgnıficance wıth the Company dunng the penod

EMPLOYEES

The Company has no dırect employees The staff are employed by BAA Lımıted

PAYMENT PRACTICE

The Company's polıcy ıs to follow the DPEI's Better Payment Practıce Code whıch ıs reproduced ın the report and accounts of BAA Lımıted The Company had 16 days purchases outstandıng at 31 December 2006 (31 March 2006 25 days) based on the average daıly amount ınvoıced by supplıers dunng the penod ended 31 December 2006

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 its 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 mitigate 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 Limited

FINANCIAL RISK MANAGEMENT

The Company deposits funds with and borrows funds from BAA Limited on a daily basis and either pays or receives interest on such funds at LIBOR + 1 5%

Details of the treasury policies of BAA Limited are given in its financial statements

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 period ended 31 December 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

Simon Welch

S Welch
Company Secretary

25 May 2007

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 period which give a true and fair view of the state of affairs of the Company as at the end of the financial period 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 nine month period ended 31 December 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 (continued)

TO THE MEMBERS OF SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

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 December 2006 and of its profit for the period 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

30 May 2007

PROFIT AND LOSS ACCOUNT
For the period ended 31 December 2006

	Note	9 months to 31 December 2006 £'000	Year to 31 March 2006 £'000
Revenue – continuing operations	2	17,216	22,022
Operating costs	3	(11,031)	(13,231)
Operating profit – continuing operations		6,185	8,791
Net interest payable	5	(42)	(197)
Profit on ordinary activities before taxation		6,143	8,594
Tax on profit on ordinary activities	6	(2,078)	(2,653)
Retained profit on ordinary activities after taxation for the financial period	13	4,065	5,941

There is no difference between the results as disclosed in the Profit and Loss Account and that on an unmodified historical cost basis

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the period ended 31 December 2006

	Note	9 months to 31 December 2006 £'000	Year to 31 March 2006 £'000
Profit for the financial period	13	4,065	5,941
Unrealised revaluation surplus	13	1,796	9,983
Total recognised gains and losses relating to the period		5,861	15,924

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the period ended 31 December 2006

	Note	9 months to 31 December 2006 £'000	Year to 31 March 2006 £'000
Profit for the financial period	13	4,065	5,941
Other net recognised gains and losses relating to the period		1,796	9,983
Net increase in shareholders' funds		5,861	15,924
Opening shareholders' funds		86,076	70,152
Closing shareholders' funds		91,937	86,076

BALANCE SHEET
As at 31 December 2006

	Note	31 December 2006 £'000	31 March 2006 £'000
FIXED ASSETS			
Tangible assets	7	102,124	98,274
CURRENT ASSETS			
Stocks	8	70	66
Debtors	9	3,373	3,308
TOTAL CURRENT ASSETS		3,443	3,374
CREDITORS:			
- amounts falling due within one year	10	(7,048)	(9,181)
NET CURRENT LIABILITIES		(3,605)	(5,807)
TOTAL ASSETS LESS CURRENT LIABILITIES		98,519	92,467
Provisions for liabilities and charges	11	(6,582)	(6,391)
NET ASSETS		91,937	86,076
CAPITAL AND RESERVES			
Called up share capital	12	40,000	40,000
Revaluation reserve	13	32,408	30,612
Profit and loss account	13	19,529	15,464
SHAREHOLDERS' FUNDS		91,937	86,076

These financial statements were approved by the Board of Directors on 25 May 2007 and signed on behalf of the Board

Stephen Baxter

S R Baxter
Chairman

C Butler
Managing Director

NOTES TO THE FINANCIAL STATEMENTS
For the period ended 31 December 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

The validity of the going concern assumption depends on the continued support of the Company's parent company, BAA Limited The Company has received confirmation from BAA Limited that support will continue for the foreseeable future In light of this support, the directors believe that it is appropriate for the financial statements to be prepared on a going concern basis

Change in accounting policy

The Company has adopted Financial Reporting Standard ("FRS") 20, 'Share based payments' during the period, resulting in a charge of £42,000 in operating costs A charge of £98,000 for the year ended 31 March 2006 has been re-allocated from other staff costs to share-based payments, being the recharge from BAA plc for that year

There was no change to the results for the year ended 31 March 2006

Revenue

Revenue is recognised in accordance with FRS 5, 'Reporting the substance of transactions' 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 period ended 31 December 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 Statement of Standard Accounting Practice ("SSAP") 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 (continued)
For the period ended 31 December 2006

1. ACCOUNTING POLICIES (continued)

Fixed assets (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	50 – 100 years
• Runway surfaces	10 - 15 years
• Runway bases	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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2006

1. ACCOUNTING POLICIES (continued)

Deferred taxation

In accordance with FRS 19, 'Deferred tax' 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

Leases

(i) Company as lessor

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

(ii) Company as lessee

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

Pensions

All employees are employed directly by BAA Limited, the Company's intermediate parent undertaking, and are entitled to join the BAA Limited 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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2006

1. ACCOUNTING POLICIES (continued)

Share based payments

The Group had a number of share based payment schemes prior to its acquisition in June 2006 by Airport Development and Investments Limited Details of these schemes are disclosed in the financial statements of BAA Limited for the nine month period to 31 December 2006 The costs associated with shares awards exercised in respect of BAA plc employees engaged in the operation of Southampton Airport are recharged by BAA plc to the Company

Cash flow statement

The Company is wholly owned by FGP Topco Limited, a company registered in England and Wales The results of the Company and of its subsidiaries are included in the audited consolidated financial statements of BAA Limited (formerly BAA plc) for the period ended 31 December 2006 They are also included in the audited consolidated financial statements of FGP Topco Limited for the period from 26 June 2006 (being the date FGP Topco Limited acquired BAA plc) to 31 December 2006

A cash flow statement has not been included in these financial statements as the Company qualifies for the exemption under the terms of FRS 1 'Cash flow statements' (revised 1996)

2. SEGMENTAL ANALYSIS

Revenue	9 months to 31 December 2006 £'000	Year to 31 March 2006 £'000
Airport and other traffic charges	9,810	13,067
Retail	5,802	6,735
Property and operational facilities	1,166	1,555
Other	438	665
	17,216	22,022

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2006

3. OPERATING COSTS FROM CONTINUING OPERATIONS

	9 months to 31 December 2006 £'000	Year to 31 March 2006 (restated) £'000
Staff costs		
Wages and salaries	4,218	5,041
Social security costs	353	398
Pension costs	1,161	846
Other staff related costs	400	523
Share based payments	42	98
	6,174	6,906
Retail expenditure	12	8
Depreciation	1,435	1,643
Maintenance expenditure	801	1,266
Rent and rates	590	771
Utility costs	542	870
General expenses	771	945
Other intra-group charges	706	856
	11,031	13,265
Profit on disposals of tangible fixed assets	-	(34)
	11,031	13,231

Operating costs include:	9 months to 31 December 2006 £'000	Year to 31 December 2006 £'000
Training expenditure	79	51
Rentals under operating leases		
- Hire of plant and machinery	5	13
- Other operating leases	26	27
Auditors' remuneration		
- fees for the audit of the Company's accounts	25	9
Legal and other professional fees	37	37

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2006

3. OPERATING COSTS FROM CONTINUING OPERATIONS (continued)

Employee information

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

The average number of employees of BAA Limited engaged in the operation of Southampton Airport during the period was 212 (year to 31 March 2006 206)

4. DIRECTORS' EMOLUMENTS

	9 months to 31 December 2006 £'000	Year to 31 March 2006 £'000
Directors' emoluments (excluding pension contributions and awards under share option schemes and other long term incentive schemes)	131	93

Number of directors who:	9 months to 31 December 2006 No.	Year to 31 March 2006 No.
are members of a defined benefit pension scheme	5	5
exercised share options	5	1
have received awards during the period in the form of shares under the deferred annual bonus scheme	-	1

M Ewing was a director of BAA plc during both financial periods and her remuneration is paid by BAA plc and disclosed in its financial statements for the year to 31 March 2006 Subsequently, due to the delisting of BAA plc, her remuneration was paid by BAA plc and reported in the financial statements of BAA Limited for the nine months to 31 December 2006 J Leo was appointed a director of BAA Limited on 24 November 2006 and his remuneration was paid by BAA Limited 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

Three directors (year to 31 March 2006 three directors) did not receive any emoluments in their capacity as directors of the Company

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2006

5. NET INTEREST PAYABLE

	9 months to 31 December 2006 £'000	Year to 31 March 2006 £'000
Interest payable		
Payable on intra group loans	(107)	(375)
Interest capitalised	62	178
	(45)	(197)
Interest receivable		
Receivable on intra group loans	3	-
Net interest payable	(42)	(197)

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Note	9 months to 31 December 2006 £'000	Year to 31 March 2006 £'000
United Kingdom Corporation tax			
Current at 30% (31 March 2006 30%)		1,661	2,078
– prior year		226	(160)
Total current tax charge		1,887	1,918
Deferred-origination and reversal of timing differences	11		
– current period		248	571
– prior year		(57)	164
		2,078	2,653

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2006

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

Reconciliation of tax charge

The standard rate of current tax for the penod, based on the UK standard rate of corporatıon tax ıs 30% (year to 31 March 2006 30%) The actual tax charge for the current penod and pnor year ıs dıfferent from 30% for the reasons set out ın the followıng reconcılıatıon

	9 months to 31 December 2006 £'000	Year to 31 March 2006 £'000
Profit on ordınary actıvıtıes before tax	6,143	8,594
Tax on profit on ordınary actıvıtıes at 30%	1,843	2,578
Factors affectıng charge		
Permanent dıfferences	66	71
Capıtal allowances for the penod ın excess of deprecıatıon	(258)	(476)
Capıtalısed ınterest	(18)	(53)
Other short term tımıng dıfferences	28	(42)
Adjustments to tax charge ın respect of pnor years	226	(160)
Current tax charge for the penod	1,887	1,918

Other than unprovıded deferred tax dıscussed ın the paragraph below and Note 11, there are no ıtems whıch would matenally affect the future tax charge

No provısıon has been made for deferred tax on gaıns recognısed on revaluıng ınvestment property to ıts market value or on the sale of propertıes where potentıally taxable gaıns have been rolled over ınto replacement assets Taxable gaıns wıll crystallıse only ıf the property were sold wıthout ıt beıng possıble to claım rollover relıef The total amount of tax unprovıded for ıs £9 1 mıllıon (31 March 2006 £8 7 mıllıon) At present, ıt ıs not envısaged that thıs tax wıll become payable ın the foreseeable future

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2006

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 2006	45,530	16,001	33,023	5,205	11,313	2,072	113,144
Additions at cost	-	25	10	6	274	3,112	3,427
Transfers to completed assets	285	434	176	189	64	(1,148)	-
Interest capitalised	-	-	-	-	-	62	62
Revaluation	1,796	-	-	-	-	-	1,796
Disposals	-		-	-	-	-	-
Re-classification	930	-	-	(1,065)	-	-	135
31 December 2006	48,541	16,460	33,209	4,335	11,651	4,380	118,576
Depreciation							
1 April 2006	-	2,606	3,077	1,093	8,094	-	14,870
Charge for the period	-	596	258	164	417	-	1,435
Disposals	-	-	-	-	-	-	-
Re-classification	-	-	-	(135)	-	-	(135)
31 December 2006	-	3,202	3,335	1,122	8,511	-	16,170
Net book value							
31 December 2006	48,541	13,258	29,874	3,213	3,140	4,098	102,124
31 March 2006	45,530	13,395	29,946	4,112	3,219	2,072	98,274

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2006

7. TANGIBLE ASSETS (continued)

Valuation

Certain investment properties and land held for development were valued at open market value at 31 December 2006 by Drivers Jonas, Chartered Surveyors at £43 7 million The remaining investment properties and land held for development were valued at open market value by Mr J M Arbuckle BLE (Hons), Head of BAA Professional Services, at £4 8 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 £1 8 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 8 million (31 March 2006 £0 7 million) £0 1 million (year to 31 March 2006 £0 2 million) has been capitalised in the period at a capitalisation rate of 5 16% (year to 31 March 2006 5 26%) based on a weighted average of borrowings

A tax deduction of £0 1 million for capitalised interest was taken in the period 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 December 2006 was £16 1 million (31 March 2006 £14 9 million)

Leased assets

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

	31 December 2006 £'000	31 March 2006 £'000
Cost or valuation	48,541	45,530
Accumulated depreciation	-	-
Net book amount	48,541	45,530

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2006

8. STOCKS

	31 December 2006 £'000	31 March 2006 £'000
Raw materials and consumables	70	66

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

9. DEBTORS

	31 December 2006 £'000	31 March 2006 £'000
Due within one year:		
Trade debtors	2,105	2,229
Amounts owed by group undertakings	119	132
Other debtors	1,138	937
	3,362	3,298
Due after more than one year:		
Other debtors	11	10
	3,373	3,308

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2006 £'000	31 March 2006 £'000
Trade creditors	3,375	1,853
Capital creditors	1,063	942
Amount owed to group undertakings	468	5,207
Corporation tax payable	259	952
Group relief	1,661	-
Other creditors	-	3
Deferred income	222	224
	7,048	9,181

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2006

11. PROVISIONS FOR LIABILITIES AND CHARGES

	Note	Deferred Tax £'000
1 April 2006		6,391
Charge to profit and loss account	6	191
31 December 2006		6,582

Analysis of the deferred tax balances are as follows

	31 December 2006 £'000	31 March 2006 £'000
Excess of capital allowances over depreciation	6,619	6,367
Other timing differences	(37)	24
	6,582	6,391

	Unprovided	
	31 December 2006 £'000	31 March 2006 £'000
Tax on chargeable gains if investment properties were sold at their current valuations	9,060	8,707

The deferred taxation liabilities have been computed at the expected long term rate of 30% (31 March 2006 30%)

Provision has been made for deferred taxation in accordance with FRS 19 'Deferred tax'

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2006

12. CALLED UP SHARE CAPITAL

	31 December 2006 £'000	31 March 2006 £'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 2006	15,464	30,612	46,076
Retained profit for the financial period	4,065	-	4,065
Revaluation surplus	-	1,796	1,796
31 December 2006	19,529	32,408	51,937

14. FUTURE COMMITMENTS

Capital

Future capital expenditure contracted commitments amount to £550,000 (31 March 2006 £103,000)

Commitments under operating leases

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

	Land & buildings 31 December 2006 £'000	Other leases 31 December 2006 £'000	Land & buildings 31 March 2006 £'000	Other leases 31 March 2006 £'000
Leases which expire				
- within one year	1	-	-	-
- within two to five years	19	13	1	7
	20	13	1	7

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period ended 31 December 2006

15. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

The immediate parent undertaking is BAA Limited, a company registered in England and Wales On 26 June 2006 Airport Development and Investment Limited (whose main participant was Ferrovial Infraestructuras S A) announced to the London Stock Exchange the acquisition of BAA plc, the Company's ultimate parent at that date BAA plc was subsequently re-registered as BAA Limited on 21 November 2006

The ultimate parent entity in the UK is FGP Topco Limited and the ultimate parent entity is Grupo Ferrovial, S A (Spain)

The Company's results are included in the audited consolidated financial statements of BAA Limited for the nine months to 31 December 2006 They are also included in the audited consolidated financial statements of FGP Topco Limited for the period from 26 June 2006 to 31 December 2006

Copies of the financial statements of FGP Topco Limited and BAA Limited may be obtained by writing to the Company Secretary at 130 Wilton Road, London, SW1V 1LQ

16. POST BALANCE SHEET EVENT

It was announced in the UK Chancellor's Budget Speech in March 2007 that the UK tax rules which provide relief for industrial buildings expenditure by way of capital allowances are to be phased out and that the headline rate of UK Corporation Tax is to be reduced from 30% to 28% These changes, whilst announced, are not yet substantially enacted If the changes are introduced as announced, the Company considers that they are likely to have an impact on the deferred tax balances held in the balance sheet which will be assessed in detail when further information is available

17. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption granted by paragraph 3c of FRS 8 'Related party disclosures' not to disclose related party transactions with FGP Topco Limited group companies

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES
For the nine month period ended 31 December 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 Basis of Cost Allocation

Statement C Connected Party Transactions

Statement D Audit Report

The information in Statements A, B and C attached, was approved by the Board of Directors on 25 May 2007 and signed on its behalf

Stephen Baxter

S R Baxter
Chairman

C M Butler

C Butler
Managing Director

PERMISSION TO LEVY CHARGES
STATEMENT A

Operational/Non-Operational Trading results in Accordance with Conditions 3 and 4
For the nine month period ended 31 December 2006.

	Income	Expenditure	Profit before tax and interest
	£'000	£'000	£'000
Operational activities			
Airport charges	9,810	7,708	2,102
Other operational activities	7,406	3,323	4,083
Total operational activities	17,216	11,031	6,185
Non operational activities	-	-	-
Total	17,216	11,031	6,185

These disclosures have been prepared under the historic cost convention 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 nine month period ended 31 December 2006.

PERMISSION TO LEVY CHARGES
STATEMENT B

Broad principles of cost allocation in accordance with Conditions 2 and 3
For the nine month period ended 31 December 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 a weight and passenger related departure charge 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 Limited. Those costs which are assessed according to the usage are attributed to subsidiaries on that basis The remaining BAA Limited costs are allocated to subsidiaries proportionately on the basis of operating profit. Within the Airport these costs are allocated between activities as overheads

PERMISSION TO LEVY CHARGES
STATEMENT C

Disclosure Transactions in Accordance with Condition 1
For the nine month period ended 31 December 2006.

BAA Limited Costs

The Company ıs charged by BAA Lımıted for servıces supplıed ın carryıng out the Company's busıness Thıs charge ıncludes those costs whıch are assessed accordıng to usage and are attrıbuted to Southampton Internatıonal Aırport Lımıted and other fellow subsıdıarıes on that basıs Other BAA Lımıted charges ınclude ıtems of expendıture relatıng dırectly to the Company whıch have been charged to the Company The remaınıng BAA Lımıted costs cannot be separately attrıbuted on a usage basıs because of the nature of the servıces supplıed and have therefore been allocated proportıonately on the basıs of operatıng profit

Inter Company account

The Company's fundıng ıs met by an ınter-company account wıth BAA Lımıted Interest on the current account ıs charged or credıted to the net borrowıng calculated at the last day of each month on the balance at the begınnıng of the month at a percentage derıved from Bank of England base rate plus 1 5%

The ınterest rate prevaılıng on the account at 31 December 2006 was 6 5%

Durıng the nıne month perıod ended 31 December 2006, the aggregate mınımum borrowıng was £NIL at 31 October 2006 The aggregate maxımum borrowıng was £4 7 mıllıon at 30 Aprıl 2006 The aggregate maxımum amount of loans to BAA Lımıted was £0 6 mıllıon at 31 October 2006

Other transactions

There were no other materıal transactıons whıch would requıre dısclosure under Condıtıon 1 of the accounts condıtıons

STATEMENT D - INDEPENDENT AUDITORS' REPORT

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 nine month period ended 31 December 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 period 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

STATEMENT D - INDEPENDENT AUDITORS' REPORT (continued)

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

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~~25~~ May 2007