Southampton International Airport Limited
Annual report and financial statements for the year ended 31 December 2011

Company registration number 02431858

Southampton International Airport Limited

Contents

Southampton International Airport Limited

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Fidel Lopez
Jorge Lavin

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Southampton International Airport Limited

Directors' report

The Directors present their Annual report and the audited financial statements for Southampton International Airport Limited (the 'Company') for the year ended 31 December 2011

Principal activities
The Company is the owner and operator of Southampton International Airport and forms part of the BAA Limited group (the 'BAA Group') The Company's financial activities are aligned with BAA Limited, and also with its immediate parent company, BAA (NDH1) Limited, which is the parent undertaking of the smallest group to consolidate these financial statements

Results and dividends
The profit after taxation for the financial year amounted to £4,833,000 (2010 £6,272,000) No dividends were proposed or paid during the year (2010 £nil) The statutory results for the year are set out on page 9

Review of business and future developments
Key events occurring during the year and developments since the beginning of 2012 are detailed below

In the year ended 31 December 2011, passenger traffic increased 1 6% to 1 762 million (2010 1 734 million) with domestic traffic increasing 1 9% and international traffic (including Channel Islands) increasing by 1 3% Domestic destinations showing most growth were Edinburgh and Glasgow with the greatest declines recorded on Newcastle and Leeds Internationally the most significant growth occurred on Dublin and Amsterdam with the most significant declines being on Alicante and Malaga There was no recurrence of the exceptional events in 2010 particularly closure of airspace due to volcanic ash, airline industrial action and severe winter weather Whilst some passengers affected by these disruptions will have completed their journeys later in 2010, these events are estimated to have resulted in the loss of passengers Adjusting for these factors, Southampton's traffic is estimated to have decreased by 2 6%

Turnover for the year ended 31 December 2011 totalled £27,662,000 (2010 £27,283,000) with aeronautical income accounting for 60 2% (2010 58 1%) of total turnover and retail income (including car parking) accounting for a further 31 4% (2010 33 1%) The increase in Aeronautical income reflected an increase in tariffs from April 2011 EBITDA, adjusted for exceptional operating gains and charges, for the year ended 31 December 2011 increased to £10,088,000 (2010 £9,907,000) as a result of the increased turnover, partially offset by small increases in salaries and property rates

During the year ended 31 December 2011, the Company invested £3,239,000 in capital expenditure Major projects in 2011 included terminal retail facilities, a priority parking area and executive lounge, enhancements to the airport's IT network infrastructure and airport operating system software, upgrades to airfield assets and the acquisition and commissioning of two fire appliance vehicles

Service standards
In 2011 Southampton achieved its highest ever average overall passenger satisfaction score in the quarterly Airport Service Quality ('ASQ') survey of 4 1 (2010 4 02) and also won the "Top UK Airport Award" at the 2011 Wanderlust readers' travel awards These are important external endorsements of the focus of the airport on delivering continuous service improvement for airlines and passengers

Developments since beginning of 2012
In the first two months of 2012, Southampton airport's passenger traffic increased 1 9% compared to the same period in 2011, in part reflecting the additional day in February 2012 due to the leap year

Outlook
The Company expects little or no growth in passenger traffic in 2012 and some reduction in EBITDA due to competitive pressures on car park revenues and inflationary impacts on costs

Directors
The Directors who served during the year and since year end, except as notes, are as follows

Pablo Andres	Resigned 30 June 2011
David Lees	
Fidel Lopez	
Jorge Lavin	Appointed 24 August 2011

Southampton International Airport Limited

Directors' report *continued*

Employment policies
The Company has no direct employees The staff are employed by BAA Airports Limited, a fellow subsidiary entity of the BAA Group

Supplier payment policy
The Company complies with the UK government's Better Payment Practice Code which states that responsible companies should
- agree payment terms at the outset of a transaction and adhere to them,
- provide suppliers with clear guidance on payment procedures,
- pay bills in accordance with any contract agreed or as required by law, and
- advise suppliers without delay when invoices are contested and settle disputes quickly

The Company had 28 days purchases outstanding at 31 December 2011 (2010 18 days) based on the average daily amount invoiced by suppliers during the year

Risk management
Risk management is a key element of the BAA Group's corporate operations of which the Company forms part The Executive Committee, Board and Audit and Assurance Committee ('AAC') referred to below relate to the Executive Committee, Board and AAC of BAA Limited

The Company has a "Safe, Secure and Sustainable" Governance Group, a part of its wider Leadership Governance Group ('LGG'), comprised of functional heads, which oversees the management of risks in the airport's operation The LGG covers all aspects of health, safety, security, compliance, training and environmental issues and formally meets on a monthly basis with representatives from each department

Risk management in the BAA Group facilitates the identification, evaluation and effective management of the threats to the achievement of the Company's purpose, vision, objectives, goals and strategies The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that all significant business decisions are risk-informed Particular emphasis is given to safety, security, environment, reputation, operations and finance

A key element of the risk management process is the method of profiling risk This determines the threats to the achievement of business objectives and day to day operations in terms of likelihood and consequence at inherent and residual level The process takes into account mitigating and controlling actions Details are maintained in risk registers which are used as the basis for regular review of risk management at Executive Committee level, at BAA level and by the LGG The risk registers are also used to make informed decisions relating to the procurement of insurance cover

The risk management process is also aimed at defining and implementing clear accountabilities, processes and reporting formats that deliver efficient and effective management assurance to the Board to ensure statutory compliance whilst supporting business units to successfully manage their operations

The operation of the process and the individual registers are subject to periodic review by the BAA Group's Internal Audit function, whose primary responsibility is to provide independent assurance to the Board that the controls put in place by management to mitigate risks are working effectively

The principal corporate and reputational risks as identified by the Executive Committee and the LGG are

Safety risks
Health and safety is a core value of the business and the Company operates a safety management system built around risk assessment, inspection, asset stewardship, governance and assurance

Risk assessment is undertaken for all activities entailing significant risk and proportionate control measures employed to safeguard everyone impacted by our business The Company also operates robust asset selection and inspection and maintenance programmes to ensure property and equipment remain safe Governance, led by the LGG, and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement

Risk management *continued*

Security risks
Security risks are regarded as critical risks to manage throughout the Southampton airport The Company mitigates these risks by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology The Company works closely with government agencies, including the police and UK Border Agency building a framework to establish joint accountabilities for airport security and shared ownership of risk, thus ensuring security measures remain both flexible and proportionate to the prevailing threat environment

Assurance is provided through management reporting processes and a specialist compliance audit function, reporting directly to the Health, Safety, Security and Environment Committee

Regulatory environment, legal and other reputational risks
Civil Aviation Authority ('CAA') regulation
The Company's operations are subject to regulation by the CAA The CAA is concerned with air safety and airspace regulation, consumer protection and environmental research and consultancy The CAA also advises the government on aviation issues and ensures that consumer interests are represented Consequently the Company is exposed to the risk of changes in day to day operations resulting from regulatory guidelines issued by the CAA and mitigates this as far as possible The airport is represented by dedicated BAA Group staff who ensure full compliance with formal regulatory requirements, establish a sound relationship with the regulator and advise the Executive Committee and Board on regulatory matters

Competition rules
The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the Company, given its position in certain markets Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, reduces the risk of the Company breaching these regulations

Environmental risks
Environmental risk is managed throughout the BAA Group as it has the potential to impact negatively upon the BAA Group's reputation and jeopardise its licence to operate and to grow The Company has a dedicated Environmental Manager whose remit covers noise, waste, air and water quality, and carbon emissions This role ensures that Southampton's operations comply with legislative obligations and company standards Strategies are being put in place to ensure full compliance with the Climate Change Act 2009 An independently audited corporate social responsibility report is published annually covering all areas of environmental performance

Commercial and financial risk management objectives and policies
Operational disruption
There are a number of circumstances that can pose short-term risks to the normal operations of Southampton such as shocks to the macroeconomic environment, terrorism, wars, airline bankruptcies, human health scares, weather conditions and natural disasters whose cause may be remote from the location of the airport Where possible the Company seeks to anticipate the effects of these events on its operations and also maintains contingency plans to minimise disruption wherever possible

Capital projects
The Company recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation The Company mitigates this risk through adherence to a robust project process and by a system of assurance, consisting of project and programme reviews before approval and during construction The process is continually improved incorporating lessons learnt and "best practice" distilled from knowledge sharing with other client programmes, expertise within its supply chain and guidance from professional bodies

Changes in demand
The risk of unanticipated long-term changes in passenger demand for air travel could lead to misaligned operational capacity within the Company Since it is not possible to identify the timing or period of such an effect, the Company carries out evaluations through a series of scenario planning exercises

Directors' report *continued*

Risk management *continued*

Commercial and financial risk management objectives and policies continued

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the Company is recognised The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions The 2011 and 2012 pay negotiations were concluded in September 2011 – the next pay negotiations are planned for late 2012 The Company could also be exposed in the short-term to the effect of industrial action involving other key stakeholders in the aviation sector such as airlines, air traffic controllers, baggage handlers and the UK Border Agency

Treasury

The Company's financial risk management objectives are aligned with its immediate parent company, BAA (NDH1) Limited, which is the parent undertaking of the smallest group to consolidate these financial statements External funds are borrowed by BAA (NDH1) Limited and lent to the Company and the financial risks for the Company are managed by BAA (NDH1) Limited group (the 'NDH1 Group') The treasury policies of the NDH1 Group are in accordance with the wider BAA Group and are set out below

The Board approves prudent treasury policies and delegates certain responsibilities to senior management who directly control day to day treasury operations on a centralised basis

The treasury function is not permitted to speculate in financial instruments Its purpose is to identify, mitigate and hedge treasury related financial risks inherent in the BAA Group's business operations and funding To achieve this, the BAA Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange contracts to protect against interest rate and currency risks

The primary treasury related financial risks faced by the NDH1 Group are

(a) Interest rates

The NDH1 Group maintains a mix of fixed and floating rate debt As at 31 December 2011, fixed rate debt after hedging with derivatives represented 82% of the NDH1 Group's total external nominal debt

(b) Foreign currency

The NDH1 Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed

(c) Funding and liquidity

The NDH1 Group is financed through term loan and revolving bank facilities totalling £1,231 8 million The NDH1 Group is cash positive after capital expenditure As at 31 December 2011, cash and cash equivalents were £27 3 million (excluding £20 4 million in restricted cash) and undrawn headroom under bank credit facilities was £175 8 million

Covenants are standardised wherever possible and are monitored on an on-going basis with formal testing reported to the AAC, the Board and the Executive Committee

(d) Counterparty credit

The NDH1 Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument

The NDH1 Group maintains a prudent split of cash and cash equivalents across market counterparties in order to mitigate counterparty credit risk Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2/F1 The NDH1 Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are entered into with counterparties with a long-term credit rating below BBB+ (S&P)/A (Fitch)

Directors' indemnity
The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgement is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office

Auditor
Pursuant to the provisions of section 485 of the Companies Act 2006, a resolution relating to the reappointment of the auditor Deloitte LLP will be proposed within the period set out in section 485

Statement of disclosure of information to the Auditor
Each of the persons who is a director at the date of approval of this Annual report confirms that
- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

On behalf of the Board

David Lees
Director

27 March 2012

Company registration number 02431858

Southampton International Airport Limited

Directors' responsibilities statement

The Directors are responsible for preparing the Annual 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 the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 Company and of the profit or loss of the Company 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 accounting estimates that are reasonable and prudent,
- state whether applicable UK 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 Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

On behalf of the Board

David Lees
Director

27 March 2012

Independent auditor's 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 December 2011 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 17 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 those matters we are required to state to them in an auditors' 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

Respective responsibilities of directors and auditor
As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatement or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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

Andrew J Kelly (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

27 March 2012

Southampton International Airport Limited

Profit and loss account for the year ended 31 December 2011

	Note	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Turnover	*1*	27,662	27,283
Operating costs - ordinary	*2*	**(20,505)**	(20,482)
Operating (costs)/gain - exceptional	*3*	**(931)**	1,995
Total operating costs		**(21,436)**	(18,487)
Operating profit		**6,226**	8,796
Net interest receivable and similar income	*4*	**188**	43
Profit on ordinary activities before taxation		**6,414**	8,839
Tax charge on profit on ordinary activities	5	**(1,581)**	(2,567)
Profit on ordinary activities after taxation	*13*	**4,833**	6,272

All profits and losses recognised during the current and prior year are from continuing operations

Southampton International Airport Limited

Statement of total recognised gains and losses for the year ended 31 December 2011

	Note	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Profit for the financial year	*13*	**4,833**	6,272
Unrealised (loss)/gain on revaluation of investment properties	*6,13*	**(1,506)**	11,293
Total recognised gains and losses relating to the year		**3,327**	17,565

Reconciliation of movements in shareholder's funds for the year ended 31 December 2011

	Note	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Profit for the financial year	*13*	**4,833**	6,272
Unrealised (loss)/gain on revaluation of investment properties	*6,13*	**(1,506)**	11,293
Capital contribution	*13*	**-**	1,935
Tax charge on capital contribution	*13*	**-**	(522)
Net movement in shareholder's funds		**3,327**	18,978
Opening shareholder's funds		**123,500**	104,522
Closing shareholder's funds		**126,827**	123,500

There is no material difference between the historical cost profits and losses and the Profit and loss account

Southampton International Airport Limited

Balance sheet as at 31 December 2011

	Note	31 December 2011 £'000	31 December 2010 £'000
Fixed assets			
Tangible fixed assets	6	**123,480**	124,619
Total fixed assets		**123,480**	124,619
Current assets			
Stocks	7	**120**	80
Debtors	8	**16,109**	10,878
Total current assets		**16,229**	10,958
Current liabilities			
Creditors amounts falling due within one year	9	**(7,129)**	(5,448)
Net current assets		**9,100**	5,510
Total assets less current liabilities		**132,580**	130,129
Creditors amounts falling due after more than one year	10	**(3,241)**	(3,160)
Provisions for liabilities and charges	11	**(2,512)**	(3,469)
Net assets		**126,827**	123,500
Capital and reserves			
Called up share capital	12	**40,000**	40,000
Revaluation reserve	13	**41,458**	42,964
Profit and loss reserve	13	**45,369**	40,536
Total shareholder's funds		**126,827**	123,500

The financial statements of Southampton International Airport Limited (Company registration number 02431858) were approved by the Board of Directors and authorised for ~~issue on~~ 27 March 2012 They were signed on its behalf by

Fidel Lopez
Director

David Lees
Director

Southampton International Airport Limited

Accounting policies for the year ended 31 December 2011

The principal accounting policies applied in the preparation of the financial statements of Southampton International Airport Limited (the 'Company') are set out below These policies have been applied consistently to all the years presented, unless otherwise stated

Basis of preparation
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets in accordance with the Companies Act 2006 and applicable United Kingdom Generally Accepted Accounting Practice

Going concern
The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future The Company forms part of the BAA (NDH1) Limited group (the 'NDH1 Group'), which is the smallest group to consolidate these financial statements, and the level at which the financial risks are managed for the Company

Consequently the Directors have reviewed the cash flow projections of the NDH1 group of which the Company forms part, taking into account
- the forecast revenue and operating cash flows from the underlying operations,
- the forecast level of capital expenditure, and
- the overall NDH1 Group liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities its forecast financial ratios and ability to access the debt markets

As a result of the review, having made appropriate enquiries of management, the Directors have a reasonable expectation that sufficient funds will be available to meet the Company's funding requirement for the next twelve months from the balance sheet signing date

Turnover
Turnover represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and consists primarily of

Aeronautical
- Passenger charges based on the number of departing passengers on departure
- Aircraft landing charges levied according to noise, emissions and weight recognised on landing
- Aircraft parking charges based on a combination of weight and time parked as provided
- Other charges levied for passenger and baggage operation when these services are rendered
- Other traffic charges

Retail
- Concession fees from retail and commercial concessionaires at or around airports are based upon turnover certificate supplied by concessionaires and are recognised in the period to which they relate
- "Roll-up" car parking income is recognised at the time of exiting the car park in accordance with operator management fee arrangements Pre-booked car parking income is recognised at the time of entering the car park

Property and operational facilities
- Property letting, rentals recognised on a straight-line basis over the term of the rental period
- Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale
- Usage charges made for operational systems (e g check-in desks), recognised as each service is provided
- Other invoiced sales, recognised on the performance of the service

Other
- Charges related to passengers with restricted mobility and various other services, recognised at the time of delivery

Exceptional items
The Company separately presents certain items on the face of the Profit and loss account as exceptional Exceptional items are material items of income or expense that, because of their size or incidence merit separate presentation to allow an understanding of the Company's financial performance

Such events may include gains or losses on disposal of businesses or assets, major reorganisation of business, closure or mothballing of terminals and costs incurred in bringing new airport terminal complexes and airfields to operational readiness that are not able to be capitalised as part of the project

Additional details of exceptional items are provided as and when required as set out in Note 3

Interest
Interest payable and interest receivable are recognised in the Profit and loss account in the period in which they are incurred

Accounting policies for the year ended 31 December 2011 *continued*

Tangible fixed assets
Operational assets
Terminal complexes, airfield assets, plant and equipment, and other land and buildings are stated at cost less accumulated depreciation and impairment losses

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 Costs associated with 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

Investment properties
Investment property, which is property held to earn rentals and/or for capital appreciation, is valued at the reporting date, as determined at the interim and full-year reporting dates by the directors and by external valuers every year Any surplus or deficit on revaluation is transferred to the revaluation reserve with the exception of deficits below original cost which are expected to be permanent, which are charged to the profit and loss account in the period in which they arise

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

In accordance with Statement of Standard Accounting Practice 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 2006 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

Capitalisation of interest
Interest payable resulting from financing tangible fixed assets whilst in the course of construction is capitalised once planning permission has been obtained and a firm decision to proceed has been taken Capitalisation of interest ceases once the asset is complete and ready for use Interest may be capitalised in the early stages of planning where the Directors are satisfied that the necessary planning, building and resource consents will be received Interest is then charged to the profit and loss account as a depreciation expense over the life of the relevant asset

Depreciation
Depreciation is provided on operational assets, other than land and assets in the course of construction, to write off the cost of the assets less estimated residual value by equal instalments over their expected useful lives as set out below

Terminal complexes	*Fixed asset lives*
Terminal building, pier and satellite structures	20 - 60 years
Terminal fixtures and fittings	5 - 20 years
Airport plant and equipment	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators, and travelators	20 years
Other plant and equipment including runway, lighting and building plant	5 - 20 years
Tunnels, bridges and subways	50 - 100 years
Airfields	
Runway surfaces	10 - 15 years
Runway bases	100 years
Taxiways and aprons	50 years
Plant and equipment	
Motor vehicles	4 - 8 years
Office equipment	5 - 10 years
Computer equipment	4 - 5 years
Computer software	3 - 7 years
Other land and buildings	
Short leasehold properties	Over period of lease

Accounting policies for the year ended 31 December 2011 *continued*

Tangible fixed assets *continued*
Depreciation continued

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date

Impairment of assets
The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount Where the asset does not generate cash flows independent of other assets, the recoverable amount of the income-generating unit to which the asset belongs is estimated Recoverable amount is the higher of an asset's net realisable value and its value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount Impairment losses of continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset

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 recoverable amount is estimated A previously recognised impairment loss is reversed only if there has been a significant change in the circumstances underlying the asset's recoverable amount since the last impairment loss was recognised If that is the case the carrying amount of the asset is increased to its recoverable amount That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset

Company as a lessee
Operating lease payments are recognised as an expense in the Profit and loss account on a straight-line basis over the lease term

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed

Company as a lessor
Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the rental income

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

Debtors
Debtors are recognised initially at cost less any provision for impairment

Cash
Cash, for the purpose of the summary cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

Amounts owed to group undertakings
Amounts owed to group undertakings are recognised initially at fair value, net of transaction costs incurred Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the Profit and loss account over the period of the borrowings using the effective interest rate method

Southampton International Airport Limited

Accounting policies for the year ended 31 December 2011 *continued*

Deferred income
Contractual income is treated as deferred income and released to the Profit and loss account as earned

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 reporting date and are discounted to present value where the effect is material

Restructurings
A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the on-going activities of the entity

Onerous contracts
Present obligations arising under onerous contracts are recognised and measured as provisions An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it

Shared Services Agreement ('SSA')
All employees of the Company are employed directly by BAA Airports Limited which also acts as the provider of corporate and administrative services to the Company BAA Airports Limited is the sponsor of the related defined benefit pension schemes and grants all employee benefits

On 18 August 2008, the Company entered into a SSA with BAA Airports Limited by which the latter became the shared services provider of operational staff and corporate services

Operational staff
BAA Airports Limited charges the Company for the provision of services in relation to staff costs, including wages and salaries, pension costs, medical costs and redundancy payments, as well as any other of its associated expenses properly incurred by the employees of BAA Airports Limited in providing the services These costs include the cost of purchase of any shares in relation to share options granted and any hedging costs related to employee share options All of the amounts included in the above-mentioned costs are settled in cash except for pension costs or costs related to hedging of share options, which are only settled when the cash outflow is requested by BAA Airports Limited

Corporate and centralised services
BAA Airports Limited also provides centralised airport support including IT applications, general business services, procurement and financial accounting These services are charged in accordance with the SSA with a mark-up of 7 5% except for IT applications, or sub-contractor costs, where only full costs are recharged to the Company

Pension costs
Under the SSA the current period service cost for the BAA Airports Limited pension schemes are recharged to the Company on the basis of pensionable salaries This charge is included within Operating costs - ordinary Cash contributions are made directly by the Company to the BAA Airports Limited pension schemes on behalf of BAA Airports Limited

The Company has had an obligation since August 2008 to fund or benefit from its share of the BAA Airports Limited defined benefit pension scheme deficit or surplus and Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits pension related liabilities under the SSA These provisions or assets are based on the relevant share of the actuarial deficit or surplus and allocated on the basis of pensionable salaries Movements in these provisions or assets are recorded as exceptional items due to their size and nature

As more than one employer participates in the BAA Airports Limited defined benefit pension scheme and each employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis, the Company accounts for the scheme in accordance with the SSA Additionally the BAA Group discloses information about the total scheme surplus or deficit

Accounting policies for the year ended 31 December 2011 *continued*

Current and deferred taxation
The tax expense for the year comprises current and deferred tax Tax is recognised in the Profit and loss account, except to the extent that it relates to items recognised directly in reserves In this case, the tax is also recognised in reserves

Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation

In accordance with FRS 19, 'Deferred Tax', deferred tax is provided in full on timing differences which result in an obligation at the reporting 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

Deferred taxation is determined using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date and are expected to apply in the periods in which the timing differences are expected to reverse

Share capital
Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs Where the shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve

Foreign currency
Transactions denominated in foreign currencies are translated into Sterling using the exchange rates prevailing at the dates of transactions Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rates of exchange ruling at the reporting date Differences arising on translation are charged or credited to the profit and loss account

Cash flow statement and related party transactions
The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2011 The results are also included in the audited consolidated financial statements of BAA (NDH1) Limited for the year ended 31 December 2011 (intermediate parent entity and the smallest group to consolidate these financial statements) They are also included in the audited consolidated financial statements of BAA Limited for the year ended 31 December 2011 Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 *Cash Flow Statements (revised 1996)* Instead, a summary cash flow statement has been provided on a voluntary basis in a note to the financial statements

The Company is exempt under the terms of FRS 8 *Related Party Disclosures* from disclosing related party transactions with entities that are related to, or part of, the FGP Topco Limited group However, the transactions and balances in relation to the provision of services under the SSA between the Company and subsidiaries of the FGP Topco Limited group are disclosed in the notes to the financial statements

Southampton International Airport Limited

Significant accounting judgements and estimates for the year ended 31 December 2011

In applying the Company's accounting policies management have made estimates and judgements in a number of key areas Actual results may, however, differ from the estimates calculated and management believes that the following areas present the greatest level of uncertainty

Investment properties
Investment properties were valued at a fair value at 31 December 2011 and 31 December 2010 by CB Richard Ellis, Chartered Surveyors The valuations were prepared in accordance with relevant accounting standards and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors Valuations were carried out having regard to comparable market evidence In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence Independent valuations have been obtained for 100% of the investment properties The majority of the investment properties comprise car parks and airside assets at Southampton and are considered less vulnerable to market volatility than the overall market

Taxation
Provisions for tax contingencies require management to make judgements and estimates in relation to tax issues and exposures Amounts provided are based on management's interpretation of UK tax law and the likelihood of settlement Tax benefits are not recognised unless the tax positions will probably be sustained In arriving at this position, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation All such provisions are included in current tax creditors

Notes to the financial statements for the year ended 31 December 2011

1 Segment information

The Directors consider the business has only one segment All of the Company's turnover arises in the United Kingdom and relates to continuing operations Additional details of the turnover generated by each of the Company's key activities are given below

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Turnover		
Aeronautical income	**16,646**	15,861
Retail income	**8,700**	9,019
Operational facilities and utilities income	**406**	333
Property rental income	**1,162**	1,244
Other income	**748**	826
	27,662	27,283

2 Operating costs – ordinary

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Wages and salaries	**5,725**	5,450
Social security	**498**	435
Pensions	**724**	699
Contract and agency staff	**23**	5
Other staff related costs	**305**	319
Share based payments	**-**	33
Employment costs[1]	**7,275**	6,941
Maintenance expenditure	**1,201**	1,158
Utility costs	**752**	814
Rents and rates	**1,157**	1,023
General expenses	**1,394**	1,312
Retail expenditure	**956**	1,041
Intra-group charges/other	**1,682**	1,710
Aerodrome navigation service charges	**3,206**	3,377
Depreciation	**2,931**	3,106
Gain on disposal of tangible fixed assets	**(49)**	-
	20,505	20,482

[1] Employment costs include recharges from BAA Airports Limited for employee services to the Company Refer to the SSA in the Accounting policies

Rentals under operating leases

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Operating costs include		
Plant and machinery	**1**	1
Other operating leases	**23**	52

2 Operatıng costs – ordınary *contınued*

Audıtors' remuneration

Audıt fees and non-audıt fees for the current and precedıng financıal years were borne by BAA Aırports Lımıted and recharged ın accordance wıth the SSA as descrıbed wıthın the Accountıng polıcıes

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Fees payable to the Company's auditor for the audıt of the Company's annual accounts:		
Audıt of the Company pursuant to legıslatıon	3	5
Non audıt fees payable to the Company's audıtor and their associates for other servıces specıfic to the Company		
Tax servıces	1	-
Corporate finance servıces [1]	3	-
Other servıces	1	-
Total non-audıt fees	5	-
Total fees	8	5

[1] Corporate finance fees largely relate to reportıng accountant work (requıred to be performed by the audıtor) assocıated wıth supportıng the raısıng of external finance wıthın the BAA group

Employee ınformatıon

The Company has no employees (2010 nıl) Staff engaged ın the operatıon of the Company are employed by BAA Aırports Lımıted whıch bears the related staff costs and recharges all such costs dırectly to the Company as a part of the SSA as descrıbed ın the Accountıng polıcıes The average number of employees of BAA Aırports Lımıted engaged ın the operatıon of Southampton Aırport durıng the year was 170 (2010 170) The number of employees does not ınclude headcount related to central support functıons for the Company whıch are rendered by BAA Aırports Lımıted and charged as ıntra-group charges ın accordance wıth the SSA

Dırectors' remuneratıon

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Dırectors' remuneratıon		
Aggregate emoluments	114	96
Value of company pensıon contrıbutıons to defined benefit scheme	18	15
	132	111

	Year ended 31 December 2011 Number	Year ended 31 December 2010 Number
Number of Dırectors who		
are members of a defined benefit pensıon scheme	1	1

Pablo Andres and Jorge Lavın were Dırectors of a number of companıes wıthın the BAA Group Both were paıd by, but are not Dırectors of, BAA Aırports Lımıted Fıdel Lopez was a Dırector of a number of companıes wıthın the BAA Group He was paıd by Ferrovıal, wıth costs recharged to the BAA Group The Dırectors do not belıeve ıt ıs possıble to accurately apportıon theır remuneratıon to ındıvıdual companıes wıthın the BAA Group based on servıces provıded

None of the Dırectors (2010 none) exercısed any share optıons durıng the year ın respect of theır servıces to the BAA Group and no shares (2010 none) were receıved or became receıvable under long term ıncentıve plans

3 Operatıng (costs)/gaın - exceptıonal

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Pensıon (charge)/credıt	(931)	1,995

3 Operating (costs)/gain – exceptional *continued*

During 2011 there was a net exceptional pension charge of £931,000 (2010 £1,995,000 credit) This includes the Company's share of the movement in the BAA Airports Limited defined benefit pension scheme, the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits and a re-allocation of pension balances between entities

4 Net interest receivable and similar income

	Note	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Interest receivable from group undertakings[1]		214	55
Interest payable to group undertakings[2]		(90)	(58)
Foreign exchange gains		3	-
Interest capitalised[3]	6	61	46
Net interest receivable and similar income		**188**	43

[1] These amounts relate mainly to interest accrued on balances due from BAA (NDH1) Limited (Note 8)

[2] These amounts relate to interest due on the loan from BAA (NDH1) Limited (Note 10)

[3] Capitalised interest included in the cost of qualifying assets is calculated by applying an average capitalisation rate across the NDH1 group of 2 60% (2010 2 31%) to expenditure incurred on such assets The capitalisation rate is based on the cost of the NDH1 group s capital expenditure facility

5 Tax on profit on ordinary activities

	Note	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Current tax			
Group relief payable		1,795	1,630
Adjustments in respect of prior periods		(92)	26
Total current tax		1,703	1,656
Deferred tax			
Origination and reversal of timing differences		53	923
Adjustments in respect of prior periods		(16)	13
Change in tax rate		(159)	(25)
Total deferred tax	11	(122)	911
Tax charge on profit on ordinary activities		**1,581**	2,567

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 26 5% (2010 28%) The actual tax charge for the current and prior years differs from the standard rate for the reasons set out in the following reconciliation

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Profit on ordinary activities before tax	6,414	8,839
Tax on profit on ordinary activities at 26 5% (2010 28%)	1,700	2,475
Effect of		
Permanent differences	147	112
Capital allowances for the year in excess of depreciation	(118)	(159)
Capitalised interest	(15)	(12)
Other short term timing differences	81	(786)
Adjustments to tax charge in respect of prior periods	(92)	26
Current tax charge for the year	**1,703**	1,656

It was substantively enacted at the reporting date that the standard rate of corporation tax in the UK would change to 25% with effect from 1 April 2012 On 21 March 2012, the Government announced its intention to introduce legislation for further reductions in the rate of corporation tax to 24% from 1 April 2012 and 23% from 1 April 2013 The reduction in the corporation tax rate to 24% was substantively enacted on 26 March 2012 Other than changes to the tax rate there are no items which would materially affect the future tax charge

6 Tangible fixed assets

	Note	Investment properties[1] £'000	Terminal complexes £'000	Airfield £'000	Other land and buildings £'000	Plant, equipment & other assets £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation								
1 January 2011		61,600	26,924	36,445	7,895	14,009	3,797	150,670
Additions at cost		-	-	-	-	4	3,235	3,239
Transfers to completed assets		(39)	589	340	3	1,457	(2,350)	-
Interest capitalised	*4*	-	-	-	-	-	61	61
Reclassifications		-	98	-	-	(98)	-	-
Disposals		-	(766)	-	-	(291)	-	(1,057)
Revaluation	*13*	(1,506)	-	-	-	-	-	(1,506)
31 December 2011		**60,055**	**26,845**	**36,785**	**7,898**	**15,081**	**4,743**	**151,407**
Depreciation								
1 January 2011		-	(7,741)	(4,978)	(1,831)	(11,501)	-	(26,051)
Charge for the year		-	(1,604)	(453)	(323)	(551)	-	(2,931)
Reclassifications		-	(12)	-	-	12	-	-
Disposals			764	-	-	291	-	1,055
31 December 2011		**-**	**(8,593)**	**(5,431)**	**(2,154)**	**(11,749)**	**-**	**(27,927)**
Net book value 31 December 2011		**60,055**	**18,252**	**31,354**	**5,744**	**3,332**	**4,743**	**123,480**
Net book value 31 December 2010		61,600	19,183	31,467	6,064	2,508	3,797	124,619

[1] Included in investment properties are assets with a carrying value of £57,855,000 which the Company has provided as security for the £30 0 million debenture that is held by BAA Lynton Limited and due in 2017

Notes to the financial statements for the year ended 31 December 2011 *continued*

6 Tangible fixed assets *continued*

Valuation

Investment properties were valued at open market value at 31 December 2010 and 2011 by CB Richard Ellis, Chartered Surveyors at £60,055,000 (2010 £61,600,000) 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 deficit of £1,506,000 (2010 surplus of £11,293,000) has been recognised in the revaluation reserve The revaluation loss reflects changes in market assumptions depicted by the valuer on an asset by asset basis and is consistent with capital value movements in the investment property market

Remaining terminal complexes, airfield infrastructure, plant and equipment and other land and buildings and other assets have been shown at historical cost

Historical cost

The historical cost of investment properties at 31 December 2011 was £18,596,000 (2010 £18,635,000)

Other land and buildings

Other land and buildings are all freehold

Assets in the course of construction

Assets in the course of construction comprise capital expenditure on on-going capital projects under the Company's capital investment programme Projects in progress at 31 December 2011 include work on the terminal's retail facilities, the priority parking area, the airport's IT network infrastructure and airport operating system software and upgrades to airfield assets

Capitalised interest

Included in the cost of assets after depreciation are interest costs of £805,600 (2010 £766,400) £61,000 (2010 £46,000) has been capitalised in the year at an average capitalisation rate of 2 60% (2010 2 31%) based on the cost of the NDH1 Group's capital expenditure facility

A tax deduction of £61,000 (2010 £46,000) 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

Leased assets

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

	31 December 2011	31 December 2010
	£'000	£'000
Cost or valuation	**61,306**	62,852
Accumulated depreciation	**(359)**	(349)
Net book amount	**60,947**	62,503

Freehold property is occupied by third parties under management agreements

7 Stocks

	31 December 2011	31 December 2010
	£'000	£'000
Raw materials and consumables	**120**	80

The replacement cost of raw materials and consumables at 31 December 2011 and 31 December 2010 was not materially different from the amount at which they are included in the Balance sheet

Notes to the financial statements for the year ended 31 December 2011 *continued*

8 Debtors

	31 December 2011 £'000	31 December 2010 £'000
Trade debtors	2,926	2,423
Amounts owed by group undertakings - interest free[1]	1	615
Amounts owed by group undertakings - interest bearing[2]	11,928	5,716
Amounts owed by group undertakings - pensions[3]	743	1,537
Other debtors	36	204
Prepayments	358	330
Interest receivable from group undertakings	117	53
	16,109	10,878

[1] Amounts owed by group undertakings - interest free largely relate to external payments received by BAA Airports Limited under the SSA on behalf of the Company which will be remitted in due course

[2] Amounts owed by group undertakings - interest bearing relate to cash sweeps transferred to the Company's immediate parent Cash is swept between the companies on a regular basis As at 31 December 2011, the balance accrues interest at a rate of 3 36% per annum (2010 2 62%)

[3] Amounts owed by group undertakings - pensions is receivable from BAA Airports Limited, net of current service cost charges to date, due to cash contributions made directly by the Company to the BAA Group defined benefit pension scheme on behalf of BAA Airports Limited

9 Creditors. amounts falling due within one year

	31 December 2011 £'000	31 December 2010 £'000
Bank overdraft	18	-
Trade creditors[1]	4,381	2,495
Capital creditors	590	1,629
Amounts owed to group undertakings - interest free[2]	-	47
Corporation tax payable	340	443
Group relief payable	1,001	388
Other creditors	315	30
Other taxes and social security costs	147	126
Deferred income	300	262
Interest payable to group undertakings	37	28
	7,129	5,448

[1] Trade creditors are non-interest bearing and generally on 30-day terms

[2] Amounts owed to group undertakings – interest free largely relate to external payments made by BAA Airports Limited under the SSA on behalf of the Company which will be settled in due course

10 Creditors amounts falling due after more than one year

	31 December 2011 £'000	31 December 2010 £'000
Amounts owed to group undertakings - interest bearing[1]	3,241	3,160

[1] Amounts owed to group undertakings - interest bearing relate to the loan advanced from the BAA (NDH1) Limited The interest on the loan is set at 0 125% above the rate of BAA (NDH1) Limited's debt facility As at 31 December 2011, the balance accrues interest at a rate of 3 36% per annum (2010 2 62%)

11 Provisions for liabilities and charges

	Deferred tax (a) £'000	Reorganisation costs (b) £'000	Pension costs (c) £'000	Other £'000	Total £'000
1 January 2011	2,141	165	1,163	-	3,469
Utilised in the year	-	(165)	-	6	(159)
Charged/(credited) to Profit and loss account	(122)	-	(676)	-	(798)
31 December 2011	**2,019**	**-**	**487**	**6**	**2,512**

Notes to the financial statements for the year ended 31 December 2011 *continued*

11 Provisions for liabilities and charges ***continued***
(a) Deferred tax

	31 December 2011 £'000	31 December 2010 £'000
Excess of capital allowances over depreciation	**1,849**	1,870
Other timing differences	**170**	272
	2,019	2,142

Analysis of the deferred tax balance is as follows

	Un-provided 31 December 2011 £'000	Un-provided 31 December 2010 £'000
Tax on chargeable gains if investment properties were sold at their current valuations	**9,117**	10,508
Tax on rolled-over gains if replacement assets were sold at their current valuations	**18**	-
	9,135	10,508

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

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value or on the sale of properties where taxable gains have been rolled over into replacement assets The total amount of tax unprovided for is £9,135,000 (2010 £10,508,000) At present it is not envisaged that this tax will become payable in the foreseeable future

The Finance Act 2011 enacted a reduction in the rate of corporation tax to 26% from 1 April 2011 and 25% from 1 April 2012 As a result the Company's deferred tax balances, which were previously provided at 27%, have been re-measured at the rate of 25% This has resulted in a reduction in the net deferred tax liability of £159,000, with £159,000 credited to the profit and loss account

(b) Reorganisation costs
The costs associated with the Company's reorganisation programme are for severance and pension payments only and were fully utilised in 2011

(c) Pension costs
The £487,000 closing provision (2010 £1,163,000) is held for historical accumulated past service pension costs borne by BAA Airports Limited in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits The movement in the year is due to the BAA Airports Limited defined benefit pension scheme moving from a deficit to a surplus position As such the closing balance is included within Debtors - Amounts owed by group undertakings – pensions

For more information on pension costs charged refer to the Accounting policies

12 Share capital

	£'000
Authorised	
1 January and 31 December 2011	
50,000,000 ordinary shares of £1 each	**50,000**
Called up, allotted and fully paid	
1 January and 31 December 2011	
40,000,002 ordinary shares of £1 each	**40,000**

13 Reserves

	Note	Revaluation reserve £'000	Profit and loss reserve £'000	Total £'000
1 January 2010		31,671	32,851	64,522
Profit for the financial year		-	6,272	6,272
Unrealised gain on revaluation of investment properties		11,293	-	11,293
Capital contribution		-	1,935	1,935
Tax charge on capital contribution		-	(522)	(522)
1 January 2011		**42,964**	**40,536**	**83,500**
Profit for the financial year		-	4,833	4,833
Unrealised loss on revaluation of investment properties	6	(1,506)	-	(1,506)
31 December 2011		**41,458**	**45,369**	**86,827**

The capital contribution in 2010 relates to the reduction in the Company's share of the deficit of the BAA Airports Limited defined benefit pension scheme, following the commutation payment made by BAA (AH) Limited in to the scheme after the disposal of Gatwick airport

14 Commitments

Commitments for capital expenditure

Contracted capital expenditure commitments amount to £88,000 (2010 £797,000)

Commitments under operating leases

At 31 December 2011, the Company was committed to making the following payments during the next year in respect of operating leases

	31 December 2011		31 December 2010	
	Land & buildings £'000	**Other leases £'000**	Land & buildings £'000	Other leases £'000
Leases which expire				
within one year	3	-	8	2
within two to five years	-	-	-	-
	3	-	8	2

Other commitments

The trustees of the BAA Airports Limited defined benefit pension scheme have recently concluded the triennial valuation of the scheme and agreed with the BAA Group a schedule of cash contributions to be made to the scheme by the BAA Group from January 2012 The valuation was carried out as at 30 September 2010 and indicated a scheme deficit of £275 million calculated using the trustees' actuarial assumptions

As part of the triennial valuation process, the BAA Group will pay £97 million per annum into the scheme from 2012 to 2014 This compares with a total of £80 million per annum paid from 2009 to 2011 The amount being paid in each of the next three years includes £24 million which is calculated to eliminate the deficit over a period of 9 years The Company expects to contribute its share of this amount, estimated at approximately £1 5 million per annum, to the pension scheme in the year ended 31 December 2012

15 Contingent liabilities

Under the SSA, hedging costs properly incurred by BAA Airports Limited in relation to the Executive Share Option Plan ('ESOP') may be recharged to the Company At 31 December 2011, the ESOP swaps held in BAA Airports Limited had a fair value loss of £55 3 million (2010 £75 6 million) The Company may be obligated to settle its share of these amounts in the future, depending on a number of factors, including the number of options vesting, the number of options being exercised and the Ferrovial share price at the exercise date Accordingly, this is disclosed as a contingent liability

The Company, together with BAA (Non Des Topco) Limited and each of its subsidiaries (other than BAA Lynton Limited), together the 'Non-Designated Obligors', have provided security over their assets to secure their obligations to the lenders under their financing arrangements Each of the Non-Designated Obligors, other than BAA (Non Des Topco) Limited, have provided a cross-guarantee of the obligations of the other Non-Designated Obligors The BAA Pension Trust Company Limited has a right to receive up to £50 million out of the proceeds of enforcement of the security granted by the Non-Designated Obligors, such right ranking pari passu with the senior creditors to the Non-Designated Obligors

16 Ultimate parent undertaking

The immediate parent undertaking of the Company is BAA (NDH1) Limited, a company registered in England and Wales

The ultimate parent entity in the UK is FGP Topco Limited, which is the parent undertaking of the largest group to consolidate these financial statements The shareholders of FGP Topco Limited are Hubco Netherlands B V (49 99%) (an indirect subsidiary of Ferrovial S A , Spain), Britannia Airport Partners L P (26 48%) (a Caisse de depôt et placement du Quebec-controlled vehicle), Baker Street Investment Pte Ltd (17 65%) (an investment vehicle of the Government of Singapore Investment Corporation) and Alinda Airports UK L P and Alinda Airports L P (5 88%) (investment vehicles managed by Alinda Capital Partners)

The Company's results are also included in the audited consolidated financial statements of BAA (NDH1) Limited for the year ended 31 December 2011, which is the parent undertaking of the smallest group to consolidate these financial statements They are also included in the audited consolidated financial statements of BAA Limited and FGP Topco Limited for the year ended 31 December 2011

Copies of the financial statements of FGP Topco Limited, BAA Limited and BAA (NDH1) Limited may be obtained by writing to the Company Secretarial Department at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW

17 Summary cash flow statement

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Operating profit	**6,226**	8,796
Adjustments for		
Depreciation	**2,931**	3,106
Loss on disposal of tangible fixed assets	**(49)**	-
Working capital changes		
Increase in stock and debtors	**(5,851)**	(3,094)
Increase/(decrease) in creditors	**2,183**	(169)
Increase/(decrease) in provisions	**(159)**	10
Difference between pension charge and cash contributions	**(813)**	(802)
Exceptional pension (credit)/charge	**931**	(1,995)
Net cash inflow from operating activities	**5,399**	5,852
Taxation – group relief paid	**(1,193)**	(2,015)
Net capital expenditure	**(4,224)**	(5,853)
Net cash outflow before financing	**(18)**	(2,016)
Increase in amounts owed to group undertakings	**-**	2,015
Decrease in cash	**(18)**	(1)