SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

Annual report and financial statements for the year ended 31 December 2009

Company Registration Number 2431858

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Stephen Peat
Pablo Andres
Kevin Brown

SECRETARY

Shu Mei Ooi

REGISTERED OFFICE

The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
WC2N 6RH

BANKERS

Barclays Bank plc
Pall Mall Corporate Banking
50 Pall Mall
London
SW1Y 5AX

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 2009 (the 'year')

PRINCIPAL ACTIVITIES

The Company owns and is the operator of Southampton International Airport and forms part of the BAA Limited Group (the 'BAA Group')

A review of the progress of the Company's business during the year, the key performance indicators, principal business risks and likely future developments are reported in the Review of Business and Future Developments

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

In the year ended 31 December 2009, passenger traffic at Southampton International Airport declined 8 2% to 1 791 million (2008 1 951 million) driven by the difficult economic environment with domestic traffic declining 6 3% and international traffic declining by 11 1% Main domestic destinations affected were Aberdeen, Edinburgh and Manchester and internationally were Paris, Amsterdam and Brussels

Turnover for the year ended 31 December 2009 totalled £26,647,000 (2008 £26,357,000) with aeronautical income accounting for 60% of total turnover and retail income (including car parking) accounting for a further 32% Expenditure decreased primarily due to reductions in employee headcount and inter company recharges from BAA Airports Limited

During the year ended 31 December 2009, Southampton International Airport invested £4 0 million in capital expenditure Key capital projects include new catering units, toilet refurbishment, new terminal forecourt security protection, new fire station accommodation and new executive lounges for both Flybe and non-Flybe customers

Regulatory developments

Department for Transport ('DfT') review of UK airport economic regulation

In 2009, the Government announced its decisions concerning the Review of Economic Regulation of UK airports The Government's announcement removes key uncertainties for the Company and its creditors and underlines the need for the Civil Aviation Authority ('CAA') to ensure airport operators have the necessary resources to operate and invest in their airports Changes resulting from the review will be implemented by primary legislation as soon as parliamentary time allows

The reforms include introducing a new single primary duty for the CAA to promote the interests of existing and future end consumers of passenger and freight services, wherever appropriate by promoting effective competition There will also be supplementary duties for the CAA to

- have regard for airport operator's legal obligations to comply with applicable environmental and planning law,
- secure, so far as it is economical to meet them, that all reasonable demands for airport services are met efficiently,
- ensure that licence holders are able to finance the activities which are subject to the relevant licence obligations,
- have regard to guidance issued by the Secretary of State, as well as any National Policy Statement on airports, and
- have regard to the principles of Better Regulation and to consult with stakeholders, including airlines

The reforms will be effected through a new tiered operating licence regime for airports similar to licences in place in certain other regulated sectors such as water and energy

Southampton International Airport handles fewer than 5 million passengers per annum and therefore falls below the threshold for a Tier 2 licence The airport would only be subject to economic regulation by a Tier 1 licence under the new framework if the CAA determined that they met the following criteria

- the airport operator has, or is likely to acquire, substantial market power, and
- competition law would not be sufficient to address the risk of the airport abusing its market power, and
- regulatory intervention within the Tier 1 licence will deliver benefits in excess of the costs associated with regulation

DIRECTORS' REPORT (continued)

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS (continued)

Outlook
The Company expects 2010 to present further significant challenges although it expects a modest recovery in passenger traffic to result in improved turnover and underlying profitability

Developments since beginning of 2010
In the first two months of 2010, passenger traffic at Southampton International Airport declined 1 8% to 0 210 million (2009 0 214 million) with year on year comparisons impacted not just by the continuing difficult economic environment but also by adverse weather conditions in both February 2009 and January 2010

RESULTS AND DIVIDENDS
The profit after taxation for the financial year amounted to £899,000 (2008 £4,140,000) No dividend has been paid or proposed during the year (2008 £nil)

The statutory results for the year are set out on page 9

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

Christopher M Butler	Resigned 31 July 2009
Jose Leo	Resigned 31 July 2009
Robert D Herga	Resigned 31 July 2009
Stephen Peat	Appointed 31 July 2009
Pablo Andres	Appointed 31 July 2009
Kevin Brown	Appointed 31 July 2009

EMPLOYMENT POLICIES
The Company has no direct employees The staff are employed by BAA Airports Limited (a fellow subsidiary entity of the BAA Group)

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 26 days purchases outstanding at 31 December 2009 (2008 14 days) based on the average daily amount invoiced by suppliers during the year

RISK MANAGEMENT
Risk management is a key element of the operations of the BAA Limited Group's (the 'BAA Group') operations of which the Company forms part Risk is centrally managed for the BAA Group as part of corporate services provided under the Shared Services Agreement ('SSA') (refer Note 1 Accounting Policies)

In addition, risk is locally managed for the Company by the Head of Assurance and is overseen by the Managing Responsibly Governance Group (MRGG) which consists of all Heads of Department and meets on a monthly basis, chaired by the Health and Safety manager The MRGG covers all areas of Health, Safety, Security and Environment and is linked with the key strategic intent to 'Run our Airport Responsibly, Safely and Securely'

Risk management in Southampton International Airport facilitates the identification, evaluation and effective management of the threats to the achievement of the BAA Group'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 and security, environmental, commercial, financial, reputational and legal risks in pursuit of the BAA Group's strategic framework

DIRECTORS' REPORT (continued)

RISK MANAGEMENT **(continued)**

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 a residual level, after taking account of mitigating and controlling actions Details are maintained in risk registers which are used as the basis for regular review of risk management at the Executive Committee level and by the MRGG 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 review by the BAA Group's Business Assurance 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 risks as identified by the BAA Executive Committee and the Southampton International Airport's Managing Responsibly Governance Group are

Safety and security risks
Safety and security risks are regarded as important risks to manage throughout Southampton International 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 It works closely with government agencies, including police and the UK Border Agency, to match security measures to a level commensurate with the current raised threat environment

Assurance is provided through management reporting processes and a specialist Assurance Team, reporting directly to the Managing Director

Regulatory environment, legal and 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, economic 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 Southampton International Airport is represented by dedicated BAA Group staff who ensure full compliance with formal regulatory requirements, establish a sound relationship with the regulatory bodies and advise the Executive Committee and Board on regulatory matters

Part of the regulatory framework is the company's engagement with its airline customers In order to manage the risk of adverse airline relations, we consult with airlines on issues that are likely to have a material impact on their businesses In particular, airlines are engaged on a joint planning basis which provides an opportunity for them to air views and share plans, thereby ensuring their ongoing requirements are articulated and understood

Capacity
Southampton International Airport has created a master plan which details the delivery of capacity and infrastructure requirements over the coming years and works closely with local authorities and stakeholders to ensure that its permitted development status continues

Environment
Environmental risks need to be managed by Southampton International Airport as they have the potential to impact its reputation and its licence to operate and to grow The Company has its own dedicated Environment Manager within the Assurance Team who works closely with local authorities, environmental bodies, airlines and the general public, in areas such as noise, waste, air quality and carbon emissions Specifically, strategies are being put in place to ensure full compliance with the recently introduced Climate Change Act 2009 An independently audited corporate social responsibility report is published annually covering all areas of environmental performance

DIRECTORS' REPORT (continued)

RISK MANAGEMENT (continued)

Commercial and financial risks

Capital projects
Southampton International Airport recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation It 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 learned 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 at Southampton International Airport 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

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 BAA Group 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 2010 Pay negotiations started in December 2009 The Company could also be exposed in the short term to the effect of industrial action at key clients (ie airlines)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
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 The treasury policies of the BAA (NDH1) Limited Group (the 'NDH1 Group') are in accordance with the wider BAA Group and are set out below

The BAA Limited 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 spot and forward/swap transactions 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 2009, fixed rate debt after hedging with derivatives represented 83% 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 a £1 255 billion bank facility The NDH1 Group is cash positive before capital expenditure As at 31 December 2009, cash at bank was £29 million and undrawn headroom under the bank credit facilities was £207 million

Funds are borrowed by BAA (NDH1) Limited and on-lent to the non designated airports through intercompany loans

Covenants are standardised wherever possible and are monitored on an ongoing basis with formal testing reported to the Board and Executive Committee

DIRECTORS' REPORT (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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 credit ratings lower than A-/A-1 The NDH1 Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are held with counterparties with a credit rating below BBB+/A

DIRECTORS' INDEMNITY

The Company's Articles of Association provide that, subject to the provisions of the Companies Act, 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

DISCLOSURE OF INFORMATION FOR AUDITORS

The directors are satisfied that the auditors are aware of all information relevant to the audit of the Company's financial statements for the year ended 31 December 2009 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

Pursuant to the provisions of Section 485 of the Companies Act 2006, a resolution relating to the appointment or reappointment of the auditors will be put to the shareholders' within the period set out in Section 485

By order of the Board

Shu Mei Ooi
Company Secretary

16 March 2010

Company Registration Number 2431858

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

The directors are responsible for the maintenance and integrity of the BAA website, which includes information related to the Company Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

In accordance with Section 418 of the Companies Act 2006, the Directors' Report shall include a statement, in the case of each director in office at the date the report is approved, that

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) he 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 auditors are aware of that information

By order of the Board

Shu Mei Ooi
Company Secretary

16 March 2010

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

We have audited the financial statements of Southampton International Airport Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholder's Funds, Balance Sheet, Accounting Policies and the related notes 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)

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 7, 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 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

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

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

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 2009 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

Graham Parsons (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 March 2010

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Turnover - continuing operations	2	**26,647**	26,357
Operating costs - ordinary	3	**(20,396)**	(20,652)
Operating costs - exceptional	4	**(4,985)**	(88)
Total operating costs		**(25,381)**	(20,740)
Operating profit - continuing operations		**1,266**	5,617
Net interest (payable)/receivable and similar charges	6	**(60)**	76
Profit on ordinary activities before taxation		**1,206**	5,693
Tax charge on profit on ordinary activities	7	**(307)**	(1,553)
Profit on ordinary activities after taxation	14	**899**	4,140

The notes on pages 12 to 28 form an integral part of these financial statements

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

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year and their historical cost equivalents

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Profit for the financial year	14	899	4,140
Unrealised loss on revaluation of investment properties	8,14	(2,967)	(2,360)
Revaluation adjustment	8,14	28	-
Total recognised gains and losses relating to the year		(2,040)	1,780

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS
For the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Profit for the financial year	14	899	4,140
Unrealised loss on revaluation of investment properties	8,14	(2,967)	(2,360)
Revaluation adjustment	8,14	28	-
Net movement in shareholder's funds		(2,040)	1,780
Opening shareholder's funds		106,562	104,782
Closing shareholder's funds		104,522	106,562

The notes on pages 12 to 28 form an integral part of these financial statements

BALANCE SHEET
As at 31 December 2009

	Notes	31 December 2009 £'000	31 December 2008 £'000
FIXED ASSETS			
Tangible fixed assets	8	**110,949**	113,117
CURRENT ASSETS			
Stocks	9	**131**	67
Debtors due within one year	10	**6,902**	4,692
due after more than one year	10	**-**	57
Cash at bank and in hand		**1**	-
TOTAL CURRENT ASSETS		**7,034**	4,816
CREDITORS amounts falling due within one year	11	**(7,505)**	(9,152)
NET CURRENT LIABILITIES		**(471)**	(4,336)
TOTAL ASSETS LESS CURRENT LIABILITIES		**110,478**	108,781
Provisions for liabilities and charges	12	**(5,956)**	(2,219)
NET ASSETS		**104,522**	106,562
CAPITAL AND RESERVES			
Called up share capital	13	**40,000**	40,000
Revaluation reserve	14	**31,671**	34,610
Profit and loss reserve	14	**32,851**	31,952
TOTAL SHAREHOLDER'S FUNDS		**104,522**	106,562

The notes on pages 12 to 28 form an integral part of these financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 16 March 2010 and were signed on its behalf by

Kevin Brown
Director

Stephen Peat
Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

1 ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below These policies have been applied consistently to all the years presented

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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UK GAAP'))

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 validity of the going concern assumption depends on the continued support of the Company's intermediate 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

Turnover

Turnover is recognised in accordance with Financial Reporting Standard ('FRS') 5, 'Reporting the substance of transactions', net of VAT, and comprises primarily

- Aeronautical income
  Passenger charges based on the number of departing passengers,
  Aircraft landing charges levied according to weight on landing,
  Aircraft parking charges based on a combination of weight and time parked, and
  Other traffic charges

- Retail income
  Concession fee based upon turnover certificate supplied by concessionaires

- Operational facilities and utilities income
  Usage charges made for operational systems (e g check-in desks), recognised as each service is provided,
  Other charges levied for passenger and baggage operation when these services are rendered, and
  Other invoiced sales, recognised on the performance of the service

- Property rental income
  Property letting sales, recognised on a straight-line basis over the term of the rental period, and
  Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

1. ACCOUNTING POLICIES (continued)

Exceptional items

Exceptional items are material items of income and expense that, because of the unusual nature and expected infrequency of the events giving rise to them, 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 Provisions to recognise the Company's liability to fund the BAA Airports Limited defined benefit pension scheme deficit under the Shared Services Agreement are also treated as an exceptional item Refer to the accounting policy for details of the Shared Services Agreement

Tangible fixed assets

(i) 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

(ii) Investment properties

Investment property, which is property held to earn rentals and/or capital appreciation, is valued at the balance sheet date, as determined at the interim and full-year reporting dates by the directors and by external valuers at least once every five years 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

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 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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

1 ACCOUNTING POLICIES (continued)

Tangible fixed assets (continued)

(iii) 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, 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

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 that are 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 change in the estimates used to determine 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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

1 ACCOUNTING POLICIES (continued)

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 charged to the profit and loss account as a depreciation expense over the life of the relevant asset

All other interest payable is recognised in the profit and loss account in the period in which it is incurred

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

(i) 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 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 rental income

(ii) Company as a lessee

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

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 diminution in value and subsequently measured at amortised cost, using the effective interest method, less any provision for impairment

Cash

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand when a right to offset exists

Foreign currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency') The financial statements are presented in Sterling, which is the Company's functional currency

Transactions denominated in foreign currencies are translated into the functional currency of the entity using the exchange rates prevailing at the dates of transactions Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the period-end Differences arising on translation are charged or credited to the profit and loss account

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

1 ACCOUNTING POLICIES (continued)

Creditors

Creditors are stated at cost and subsequently measured at amortised cost, using the effective interest method

Amounts owed to group undertakings are stated at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method

Deferred income

Contractual income is treated as deferred income and released to the profit and loss account over the life of the contract

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

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 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

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

Shared Services Agreement

All employees 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 administrator and sponsor of the related defined benefit pension plans and grants all employee benefits

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

1 ACCOUNTING POLICIES (continued)

Shared Services Agreement (continued)

(i) Operational staff
BAA Airports Limited charges the Company for the provision of services in relation to staff costs, including wages and salaries, superannuation 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 the employee share options All of the amounts included in the abovementioned costs are settled in cash except for superannuation costs or costs related to hedging of share options, which are only settled when the cash outflow is requested by BAA Airports Limited

(ii) 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 where full costs are recharged to the Company

(iii) Pension costs
Under the SSA the current period service costs for the BAA Airports Limited pension schemes are recharged to the Company on the basis of its pensionable pay base This charge is included within ordinary staff pension costs (Note 3)

Cash contributions are made directly by the Company to the pension trustee of the BAA Airports Limited defined benefit pension scheme on behalf of BAA Airports Limited and the related receivable from BAA Airports Limited, net of the current service cost charges to date, is recorded within Debtors - Amounts owed by group undertakings - pensions

In addition, the Company also has a legal obligation since August 2008 to fund its share of the BAA Airports Limited pension deficit and Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits ('UURBS') (pension related liabilities) under the SSA These provisions are based on the Company's share of the actuarial deficit The share of the deficit has been allocated to the Company on the basis of pensionable salaries and recorded as an exceptional item due to its unusual nature These provisions are recorded as Provisions for liabilities and charges - Pensions, and will only be settled when the cash outflows are requested by BAA Airports Limited

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 2009 The results of the Company are also included in the audited consolidated financial statements of BAA (NDH1) Limited for the year ended 31 December 2009 (immediate 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 2009 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)'

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 Group are disclosed in the notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

1 ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates

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 believe that the following areas present the greatest level of uncertainty

Investment properties
Investment properties were valued at fair value at 31 December 2009 by Drivers Jonas, Chartered Surveyors These valuations were prepared in accordance with UK GAAP 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 Approximately 97 percent of the investment properties comprise car parks and airside assets that are considered less vulnerable to market volatility than the overall market Given the recent decline in property prices, independent valuations were obtained for all investment properties

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 country specific tax law and the likelihood of settlement Tax benefits are not recognised unless the tax positions are probable of being 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 liabilities

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

2. SEGMENTAL ANALYSIS

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

Turnover	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Aeronautical income	**15,918**	15,063
Retail income	**8,545**	8,953
Operational facilities and utilities income	**352**	413
Property rental income	**1,110**	1,153
Other income	**722**	775
	26,647	26,357

3 OPERATING COSTS – ORDINARY

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Wages and salaries	**5,064**	5,782
Social security	**389**	446
Pensions	**583**	752
Other staff related costs	**291**	527
Share based payments	**52**	92
Employment costs[1]	6,379	7,599
Maintenance expenditure	**1,260**	1,176
Utility costs	**735**	738
Rents and rates	**945**	903
General expenses	**1,503**	1,204
Retail expenditure	**993**	914
Intra-group charges/other	**2,078**	3,350
Air navigation charges	**3,305**	2,400
Depreciation	**3,193**	2,368
Loss on disposal of tangible fixed assets	**5**	-
Total operating costs - ordinary	20,396	20,652

[1] Employment costs comprise recharges from BAA Airports Limited for employee services to the Company Refer to Shared Services Agreement accounting policy in Note 1

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Operating costs include		
Rentals under operating leases		
- Plant and machinery	**2**	-
- Other operating leases	**45**	41
Services provided by the Company's auditors		
- Fees payable for the audit	**17**	17
- Other services[1]	**11**	-

[1] Fees for other services comprise £11 000 in relation to a review of the IT strategy across the non designated airports (2008 £nil)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

3 OPERATING COSTS – ORDINARY (continued)

Employee information

The Company has no employees However, all staff costs for the Company's operations are borne by BAA Airports Limited which recharges all such costs directly to the Company as a part of the SSA as described in the Accounting Policies under the 'Shared Services Agreement' The average number of employees of BAA Airports Limited engaged in the operation of Southampton International Airport during the year was 171 (2008 198)

4. OPERATING COSTS – EXCEPTIONAL

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Pension costs[1]	**4,985**	119
Reorganisation income[2]	-	(31)
	4,985	88

[1] During 2009 total exceptional pension costs of £4,985,000 (2008 £119 000) were incurred £4 726,000 (2008 £nil) was in relation to the push down of the Company's share of the deficit on the BAA Airports Limited defined benefit pension scheme and £259 000 (2008 £119,000) in relation to UURBS in accordance with the SSA. For more information on pension costs charged refer to Note 1 Accounting policies

[2] During 2008 an amount of £31,000, associated with restructuring programmes was credited to the profit and loss account as a result of higher staff turnover than historic experience and a lower than expected cost for each reduction in headcount

5 DIRECTORS' EMOLUMENTS

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Directors' emoluments		
Aggregate emoluments	-	156

Aggregate directors' emoluments are less than £200,000 in 2009 and 2008 therefore no highest paid director disclosure is presented

	Year ended 31 December 2009 Number	Year ended 31 December 2008 Number
Number of directors who.		
- are members of a defined benefit pension scheme	4	1

None of the directors who served Southampton International Airport Limited during the year received emoluments from the Company

J Leo was a director of BAA Limited for the year and BAA Airports Limited from 31 July 2009 His remuneration was paid by BAA Airports Limited and is disclosed within the respective financial statements for the period for which he was a director S Peat's remuneration was paid by BAA Airports Limited He was a member of the Executive Committee for the full year and so his remuneration is disclosed in BAA Limited K Brown was a director of Aberdeen Airport Limited His remuneration was paid by Aberdeen Airport Limited and is disclosed in Aberdeen Airport Limited's financial statements P Andres was paid by, but is not a director of, BAA Airports Limited R Herga was paid by, but is not a director of, BAA Airports Limited C Butler was paid by, but is not a director of, Heathrow Airport Limited The directors do not believe it is possible to apportion their remuneration to individual companies within the BAA Group based on services provided

Six directors (2008 one) did not receive any emoluments in their capacity as a director of the Company

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

5. DIRECTORS' EMOLUMENTS (continued)

In accordance with a long term incentive scheme, a cash amount could be awarded to four of the six directors who held office during 2009 (2008 none), which would vest in 2012 contingent on achieving or surpassing EBITDA targets over a three year period As the financial performance is uncertain at this stage the above emoluments do not contain any value in relation to this award

No directors (2008 none) exercised any share options during the year, and no shares (2008 none) were received or became receivable under long term incentive plans

6. NET INTEREST (PAYABLE)/RECEIVABLE AND SIMILAR CHARGES

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Interest receivable		
Interest receivable from other group undertakings	24	79
Interest payable		
Interest payable to other group undertakings	(84)	(3)
Interest payable on derivative financial instruments	(29)	-
	(113)	(3)
Interest capitalised	29	-
Net interest (payable)/receivable and similar charges	(60)	76

Capitalised interest is calculated by applying a capitalisation rate of 2 54% (2008 6 75%) to expenditure incurred on qualifying assets The capitalisation rate is based on the cost of the NDH1 Group capital expenditure facility

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Note	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Current tax			
Group relief payable		**1,375**	1,908
Adjustments in respect of prior periods		**(3)**	23
Total current tax		**1,372**	1,931
Deferred tax			
Origination and reversal of timing differences			
- current period		**(1,018)**	(335)
- prior periods		**(47)**	(43)
Total deferred tax	12	**(1,065)**	(378)
Tax charge on profit on ordinary activities		**307**	1,553

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 28% (2008 28 5%) 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 2009 £'000	Year ended 31 December 2008 £'000
Profit on ordinary activities before tax	**1,206**	5,693
Tax on profit on ordinary activities at 28% (2008 28 5%)	**338**	1,623
Effect of		
Permanent differences	**18**	(85)
Capital allowances for the year (in excess of)/less than depreciation	**(97)**	502
Capitalised interest	**(8)**	-
Other short term timing differences	**1,124**	(132)
Adjustments to tax charge in respect of prior periods	**(3)**	23
Current tax charge for the year	**1,372**	1,931

Other than the unprovided deferred tax discussed in Note 12, there are no items which would materially affect the future tax charge

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

8 TANGIBLE ASSETS

	Investment properties £'000	Terminal complexes £'000	Airfields £'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 2009	56,276	20,736	36,489	4,348	13,630	1,944	133,423
Additions at cost	-	-	-	-	22	3,918	3,940
Transfers to completed assets	(9)	1,783	77	440	438	(2,729)	-
Interest capitalised	-	-	-	-	-	29	29
Disposals	-	(556)	-	-	(3)	-	(559)
Reclassifications	(3,000)	-	-	3,000	-	-	-
Revaluation deficit	(2,967)	-	-	-	-	-	(2,967)
Revaluation adjustment (Note 14)	-	-	-	28	-	-	28
31 December 2009	**50,300**	**21,963**	**36,566**	**7,816**	**14,087**	**3,162**	**133,894**
Depreciation							
1 January 2009	-	(4,917)	(4,161)	(1,327)	(9,901)	-	(20,306)
Charge for the year	-	(1,457)	(446)	(145)	(1,145)	-	(3,193)
Disposals	-	552	-	-	2	-	554
31 December 2009	**-**	**(5,822)**	**(4,607)**	**(1,472)**	**(11,044)**	**-**	**(22,945)**
Net book value							
31 December 2009	**50,300**	**16,141**	**31,959**	**6,344**	**3,043**	**3,162**	**110,949**
31 December 2008	56,276	15,819	32,328	3,021	3,729	1,944	113,117

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

8 TANGIBLE ASSETS (continued)

Valuation

Investment properties were valued at open market value at 31 December 2009 by Drivers Jonas, Chartered Surveyors, at £50,300,000 (2008 £56,276,000) 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 £2,967,000 (2008 £2,360,000) has been recognised in the revaluation reserve

Remaining terminal complexes, airfield infrastructure, plant and equipment and other land and buildings have been shown at cost less accumulated depreciation

Capitalised interest

Included in the cost of assets after depreciation are interest costs of £738,400 (2008 £735,500) £29,000 (2008 £nil) has been capitalised in the year at a capitalisation rate of 2 54% (2008 6 75%) based on the cost of the NDH1 Group capital expenditure facility

Capitalised interest of £29,000 (2008 £nil) has been treated as tax deductible in the year Subsequent depreciation of the capitalised interest is disallowed for tax purposes Consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets

Historical cost

The historical cost of investment properties at 31 December 2009 was £18,628,000 (2008 £21,664,000)

Other land and buildings

Other land and buildings are all freehold

Assets in the course of construction

Assets in the course of construction comprises capital expenditure on ongoing capital projects under the Company's capital investment programme Projects in progress at 31 December 2009 include new catering units and toilet refurbishment

Leased assets

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

	31 December 2009 £'000	31 December 2008 £'000
Cost or valuation	**50,998**	56,814
Accumulated depreciation	**(185)**	(134)
Net book amount	**50,813**	56,680

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

9. STOCKS

	31 December 2009 £'000	31 December 2008 £'000
Raw materials and consumables	**131**	67

The replacement cost of raw materials and consumables at 31 December 2009 and 31 December 2008 was not materially different from the amount at which they are included in the accounts

10 DEBTORS

	31 December 2009 £'000	31 December 2008 £'000
Due within one year:		
Trade debtors	**1,709**	2,749
Amounts owed by group undertakings - interest free[1]	**1,542**	1,420
Amounts owed by group undertakings - interest bearing[2]	**2,533**	-
Amounts owed by group undertakings - pensions[3]	**735**	81
Other debtors	**142**	162
Prepayments	**217**	280
Interest receivable from group undertakings	**24**	-
	6,902	4,692
Due after more than one year·		
Other debtors	**-**	57
Total debtors	**6,902**	4,749

[1] Amounts owed by group undertakings - interest free largely relate to external payments received by BAA Airports Limited under the Shared Services Agreement 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, BAA (NDH1) Limited Cash is swept between the companies on a regular basis
[3] Amounts owed by group undertakings - pensions is the receivable from BAA Airports Limited net of current service cost charges to date due to cash contributions made directly by the Company to the pension trustee of the BAA Airports Limited defined benefit pension scheme on behalf of BAA Airports Limited

11 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2009 £'000	31 December 2008 £'000
Trade creditors[1]	**2,629**	2,874
Capital creditors	**2,045**	1,327
Amounts owed to group undertakings - interest free[2]	**106**	-
Amounts owed to group undertakings - interest bearing[3]	**1,132**	3,210
Corporation tax payable	**443**	443
Group relief payable	**747**	908
Other creditors	**83**	5
Other taxes and social security costs	**125**	145
Deferred income	**186**	240
Interest payable to group undertakings	**9**	-
	7,505	9,152

[1] Trade creditors are non-interest bearing and generally on 30-day terms
[2] The amounts owed to group undertakings - interest free largely relates to external payments made by BAA Airports Limited under the Shared Services Agreement on behalf of the Company which will be settled in due course
[3] The amounts owed to group undertakings - interest bearing relate to loans advanced from the Companys immediate parent entity BAA (NDH1) Limited in 2009 The loan is repayable on demand and accrues interest at 2 46% as at 31 December 2009 The balance outstanding at 31 December 2008 mainly related to the cash sweeps transferred from the Company s immediate parent

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

12 PROVISIONS FOR LIABILITIES AND CHARGES

	Notes	Deferred tax (a) £'000	Reorganisation costs (b) £'000	Pension (c) £'000	Total £'000
1 January 2009		1,773	327	119	2,219
(Credited)/charged to profit and loss account	7,4	(1,065)	-	4,985	3,920
Utilised in the year		-	(172)	(11)	(183)
31 December 2009		**708**	**155**	**5,093**	**5,956**

(a) Deferred tax

Analysis of the deferred tax balance is as follows

	31 December 2009 £'000	31 December 2008 £'000
Excess of capital allowances over depreciation	**1,752**	1,690
Other timing differences	**(1,044)**	83
	708	1,773

	Unprovided	
	31 December 2009 £'000	31 December 2008 £'000
Tax on chargeable gains if investment properties were sold at their current valuations	8,105	8,781

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 sale of properties where taxable gains have been rolled over into replacement assets The total amount of tax unprovided for is £8,105,083 (2008 £8,780,980) At present it is not envisaged that this tax will become payable in the foreseeable future

(b) Reorganisation costs

Costs associated with the Company's reorganisation programme are for severance and pension payments only All amounts are expected to be utilised in 2010

(c) Pension

A provision of £5,093,000 (2008 £119,000) is held in relation to pensions, representing the legal obligation of the Company under the SSA to fund its share of the BAA Airports Limited pension deficit and related pension liabilities £4,726,000 (2008 £nil) of the provision relates to the push down of the Company's share of the deficit on the BAA Airports Limited defined benefit pension scheme £367,000 (2008 £119,000) 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 These provisions will only be settled when the cash outflow is requested by BAA Airports Limited For more information on pension costs charged in accordance with the Shared Services Agreement, refer to Note 1 Accounting policies

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

13 CALLED UP SHARE CAPITAL

	£'000
Authorised	
At 1 January and 31 December 2009	
50,000,000 ordinary shares of £1 each	**50,000**
Called up, allotted and fully paid	
At 1 January and 31 December 2009	
40,000,002 ordinary shares of £1 each	**40,000**

14 RESERVES

	Revaluation reserve £'000	Profit and loss reserve £'000	Total £'000
At 1 January 2009	34,610	31,952	66,562
Profit for the financial year	-	899	899
Unrealised loss on revaluation of investment properties	(2,967)	-	(2,967)
Revaluation adjustment	28	-	28
At 31 December 2009	**31,671**	**32,851**	**64,522**

During the year, previously recognised valuation deficits amounting to £28,000 were released as a result of the reclassification of an investment property to BAA Group occupied properties

15. COMMITMENTS

Commitments for capital expenditure

Capital expenditure contracted commitments amount to £1,266,200 (2008 £339,900)

Commitments under operating leases

At 31 December 2009, the Company was committed to making the following payments during the next year in respect of operating leases

	Land & buildings 31 December 2009 £'000	**Other leases 31 December 2009 £'000**	Land & buildings 31 December 2008 £'000	Other leases 31 December 2008 £'000
Leases which expire				
- within one year	50	4	47	5
- within two to five years	-	1	-	2
	50	5	47	7

Other commitments

In July 2008, the BAA Group reached agreement with the Trustee of the BAA Airports Limited defined benefit pension scheme to contribute £80 0 million per annum for a period of three years ending 31 December 2011 This amount is apportioned to the operating companies of the BAA Group based on pensionable pay base and paid directly by them The Company expects to contribute its share of this amount, estimated at approximately £1 2 million to the pension plan in the year ending 31 December 2010

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2009

17. CONTINGENT LIABILITIES

Under the Shared Services Agreement hedging costs properly incurred by BAA Airports Limited in relation to the Employee Share Ownership Plan ('ESOP') may be recharged to the Company At 31 December 2009, the ESOP swap held in BAA Airports Limited had a fair value loss of £69 9 million (2008 £117 1 million) The Company may be obligated to settle its share of these amounts in the future which is approximately £1 4 million, depending on a number of factors, including the number of options vesting, the number of options being exercised and the Ferrovial share price at 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 the Non-Designated Facility 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 Trustee 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 lenders to the Non-Designated Obligors

18 ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking 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 in the UK to consolidate these financial statements The shareholders of FGP Topco Limited are Finecofer S L (55 9%) (as successor to Lernamara S L and Ferrovial Infraestructuras S A), Britannia Airport Partners L P (26 5%) (a Caisse de dépôt et placement du Quebec-controlled vehicle) and Baker Street Investment Pte Ltd (17 6%) (an investment vehicle of the Government of Singapore Investment Corporation) The ultimate parent entity of the majority shareholder is Ferrovial S A (Spain)

The Company's results are also included in the audited consolidated financial statements of BAA (NDH1) Limited for the year ended 31 December 2009, 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 2009

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

AIRPORTS ACT 1986

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

YEAR ENDED 31 DECEMBER 2009

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

Statement A Operational/Non - Operational Trading Results

Statement B Principles of Cost Allocation

Statement C Connected Party Transactions

Statement D Independent Auditors' Report

The information in Statements A, B and C attached, was approved by the Board of Directors on 16 March 2010

Kevin Brown
Director

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

STATEMENT A

Operational/Non-operational trading results in accordance with Conditions 3 and 4 for the year ended 31 December 2009.

	Income £'000	Expenditure £'000	Profit/(loss) before interest and tax £'000
Operational activities:			
Airport charges	15,918	17,328	(1,410)
Other operational activities	10,729	8,053	2,676
Total operational activities	26,647	25,381	1,266
Non operational activities	-	-	-
Total	26,647	25,381	1,266

These disclosures have been prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets and are in accordance with the accounting policies disclosed within the Southampton International Airport Limited financial statements for the year ended 31 December 2009

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

STATEMENT B

Broad principles of cost allocation in accordance with Conditions 2 and 3 for the year ended 31 December 2009.

Costs have been allocated into the following categories

Airport charges
Other operational activities
Non-operational activities

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

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

Direct expenditure excluding depreciation
Area occupied
Staff deployed

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

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

STATEMENT C

Disclosure Transactions in Accordance with Condition 1 for the Year Ended 31 December 2009

BAA Airports Limited Costs

The Company is charged by BAA Airports Limited £1 7 million for services supplied in carrying out the Company's business This charge includes those costs which are assessed according to usage and are attributed to Southampton International Airport Limited and other operating companies on that basis The charge also includes the costs of centrally provided services for IT, procurement and retail marketing Other BAA Airports Limited charges include items of expenditure relating directly to the Company which have been charged to the Company The remaining BAA Airports Limited costs cannot be separately attributed on a usage basis because of the nature of the services supplied and have therefore been allocated proportionately on the basis of operating profit subject to a minimum charge of £100,000

Inter Company account

Amounts owed by group undertaking relate to the cash sweeps transferred from the Company's immediate parent Cash is swept between the companies on a regular basis The balance of the debtor as at 31 December 2009 is £2 5 million

Borrowings from group undertaking relates to a loan from BAA (NDH1) Limited, which accrues interest at a rate of 2 46% and is repayable on demand The balance of the loan as at 31 December 2009 is £1 1 million

Funding and liquidity

The NDH1 Group is financed through a £1 255 billion bank facility The NDH1 Group is cash positive before capital expenditure As at 31 December 2009, cash at bank was £29 million and undrawn headroom under the bank credit facilities was £207 million

Funds are borrowed by BAA (NDH1) Limited and on-lent to the non designated airports through intercompany loans

Covenants are standardised wherever possible and are monitored on an ongoing basis with formal testing reported to the Board and Executive Committee

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

STATEMENT C (continued)

Contingent Liabilities and Guarantees

Under the Shared Services Agreement hedgıng costs properly ıncurred by BAA Aırports Lımıted ın relatıon to the Employee Share Ownershıp Plan ('ESOP') may be recharged to the Company At 31 December 2009, the ESOP swap held ın BAA Aırports Lımıted had a faır value loss of £69 9 mıllıon The Company may be oblıgated to settle ıts share of these amounts ın the future whıch ıs approxımately £1 4 mıllıon, dependıng on a number of factors, ıncludıng the number of optıons vestıng, the number of optıons beıng exercısed and the Ferrovıal share prıce at exercıse date Accordıngly, thıs ıs dısclosed as a contıngent lıabılıty

The Company, together wıth BAA (Non Des Topco) Lımıted and each of ıts subsıdıarıes (other than BAA Lynton Lımıted), together 'the Non-Desıgnated Oblıgors', have provıded securıty over theır assets to secure theır oblıgatıons to the lenders under the Non-Desıgnated Facılıty Each of the Non-Desıgnated Oblıgors, other than BAA (Non Des Topco) Lımıted, have provıded a cross-guarantee of the oblıgatıons of the other Non-Desıgnated Oblıgors The BAA Pensıon Trustee has a rıght to receıve up to £50 mıllıon out of the proceeds of enforcement of the securıty granted by the Non-Desıgnated Oblıgors, such rıght rankıng *parı passu* wıth the senıor lenders to the Non-Desıgnated Oblıgors

Other Transactıons

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

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
141, Bothwell Street
Glasgow G2 7EQ
Telephone +44 (0) 141 355 4000
Facsimile +44 (0) 141 355 4005
www pwc com/uk

The Directors
Southampton International Airport Limited.
The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW

The Civil Aviation Authority
CAA House
45-49 Kingsway
London
WC2B 6TE

17 March 2010

Dear Sirs

Report of factual findings of the Permission to Levy Charges for Southampton International Airport Limited ("the Airport")

This report is produced in accordance with the terms of our Contract dated 08 March between the Civil Aviation Authority ("the CAA") and Southampton International Airport Limited ("the Airport") in connection with the Airport's submission of Permission to Levy Charges

The directors of the Airport are responsible for ensuring that the Airport maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Airport, properly recording transactions in the accounting records and establishing and maintaining internal control sufficient to permit the preparation of financial information, identifying and ensuring that the Airport complies with the laws and regulations applicable to its activities in accordance with the airports Act 1986 and ensuring that the Airport prepares the Transparency Statements as required by the CAA under section 46(2) of the Airport Act 1986 The Statement, for which the directors of the Airport are solely responsible, is attached to this report

We have performed the procedures agreed with you and listed below on the Statement Our work was performed in accordance with International Standard on Related Services 4400 "Engagements to Perform Agreed-Upon-Procedures regarding Financial Information". The procedures were performed solely to assist you in the submission of the Statements to the CAA The procedures we performed and our findings are set out below -

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Procedures	Findings
1 Obtained a copy of the Accounts Conditions Statements A-C as prepared by the Airport's directors, according to template described in the Appendix C to this engagement letter,	Done and no exceptions noted,
2 Obtained a signed copy of the audited Financial Statements of the Airport for the year under review, formally approved by the Airport's directors, agreed the total amount of income, expenditure and profit before interest and tax to Statement A of the Accounts Conditions Statements,	Done and no exception noted,
3 Identified and understood the process in place by which the Airport's directors compile the Statements and the factors they considered in compiling the Statements,	Done and no exceptions noted,
4 Checked the processes described in the Principles of Cost Allocation in Accounts Condition Statement B, by which the Airports' directors compile Statement A have been followed,	Done and no exceptions noted;
5 Checked that the financial information provided in Accounts Condition Statements A and C has been accurately extracted from the Airport's books and records,	Done and no exceptions noted,
6 Recalculated, if appropriate, all calculations in the Statements A, B and C,	Done and no exceptions noted,
7 Agreed the allocations of income, expenditure and profit before interest and tax to Statement B, and	Done and no exceptions noted,
8 Checked that any necessary amendments to the Statements arising from the above work were correctly reflected in the final Statements approved by the Directors	Done and no exceptions noted,

Our procedures, as stated in the Contract, do not constitute an examination made in accordance with generally accepted auditing standards, the objective of which would be the expression of assurance on the contents of the Statement Accordingly, we do not express such assurance Had we performed additional procedures or had we performed an audit or review of the Statement in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you This report relates only to the Statement and items specified above and does not extend to any financial statements of the Airport, taken as a whole

The audit work of PwC on the financial statements of the Airport was, and is, carried out in accordance with statutory obligations and the audit reports were and are intended for the

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sole benefit of the Airport and the Airport's shareholders respectively as a body, to whom they are addressed The audit of the Airport's financial statements were not and will not be planned or conducted in contemplation of the requirements of anyone other than the members as a body, and consequently the audit work is not intended to address or reflect matters in which anyone other than the members as a body may be interested

PwC will not, by virtue of preparing this Report or otherwise in connection with this engagement, assume any responsibility whether in contract, tort (including without limitation negligence) or otherwise in relation to the audits of the Airports' financial statements, PwC and its respective members, partners, employees, agents and contractors shall have no liability whether in contract, tort (including without limitation negligence) or otherwise to any third parties in relation to the audits of the Airports' financial statements

This report is solely for your use in connection with the purpose specified above and as set out in the Contract Unless required by law, it is not to be used for any other purpose or to be copied or distributed or otherwise made available or referred to, in whole or in part, to any other party without our prior written consent, which we may at our discretion grant, withhold or grant subject to conditions We do not accept any liability or responsibility to any third party to whom our report is shown or into whose hands it may come

Yours faithfully

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP