Southampton International Airport Limited

Annual report and financial statements
for the year ended 31 December 2010

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Company registration number 02431858

Southampton International Airport Limited

Contents

Southampton International Airport Limited

Officers and professional advisers

Directors
David Lees
Fidel Lopez
Pablo Andres

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Independent auditors
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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 2010

Principal activities
The Company owns and is the operator of Southampton 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 £6,272,000 (2009 £899,000) No dividends were proposed or paid during the year (2009 £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 2011 are detailed below

In the year ended 31 December 2010, passenger traffic declined 3 2% to 1 734 million (2009 1 791 million) with domestic traffic declining 5 0% and international traffic declining by 1 6% Main domestic destinations affected were Aberdeen, Leeds and Manchester and internationally were Alicante, Brussels, Cork, Dubrovnik, and Paris Year on year performance reflected a number of exceptional events including closure of UK and European airspace primarily in April due to ash from an Icelandic volcano and severe winter weather in both January and December 2010 Whilst some passengers affected by these disruptions will have completed their journeys later in 2010, adjusting for these factors, Southampton's traffic is estimated to have increased by up to 1 1%

Turnover for the year ended 31 December 2010 totalled £27,283,000 (2009 £26,647,000) with aeronautical income accounting for 58 1% (2009 59 7%) of total turnover and retail income (including car parking) accounting for a further 33 1% (2009 32 1%) The Statement of total recognised gains and losses included a £11,293,000 unrealised gain (2009 £2,967,000 loss) on revaluation of investment properties Car parks comprise the majority of investment property assets independently valued at year end and the result reflects improved car park yield management that is sustainable going forward

EBITDA, adjusted for exceptional operating gains and charges, for the year ended 31 December 2010 increased to £9,907,000 (2009 £9,452,000) despite lower traffic with the increase reflecting the net positive effect of higher retail, property rental and other income, higher employment costs and reduced other operating costs

During the year ended 31 December 2010, the Company invested £5,853,000 in capital expenditure Key capital projects included renewal of the terminal roof, development of airside retail facilities and terminal forecourt security protection

Regulatory developments
Airport economic regulation review
In March 2011, the new UK coalition government confirmed its intention to implement reforms to the framework for economic regulation of UK airports, as set out in its July 2010 statement, which largely build on proposals published in December 2009

The proposed reforms are intended to enable the Civil Aviation Authority ('CAA') to take a more flexible and targeted approach to regulation whilst minimising unnecessary regulation This has resulted in the discarding of the original proposal for licences to be introduced for smaller airports such as Southampton airport Nevertheless the reforms will still affect all UK airports in certain important respects including the CAA having a primary duty to promote the interests of passengers which will be supported by a range of supplementary duties

Separately, the Government is expected shortly to transpose the EU Airport Charges Directive ('ACD') into UK law This introduces requirements on all airports above 5 million passengers per annum As Southampton airport currently handles fewer than 5 million passengers per annum, it falls below the formal threshold for the ACD

Developments since beginning of 2011
In the first two months of 2011, passenger traffic at Southampton airport declined 2 9% to 0 204 million (2010 0 210 million) with traffic increasing in January due to adverse weather that impacted performance in January 2010 and declining in February due to weakness in domestic traffic

In February 2011, the Company entered into a contract with Capgemini for the outsourcing of a range of IT services previously provided by the BAA Group's own IT department These services, which include application management, support of end user devices, IT infrastructure management and telecoms support, will be provided under an initial five year contract The arrangement will involve a transition programme during 2011 which will include the transfer (to Capgemini) or retention of employees within the BAA Group's IT department and result in one-off incremental operating costs during 2011

Directors' report *continued*

Outlook
The Company expects 2011 to present further significant challenges although it expects a modest recovery in passenger traffic as the year progresses

Directors
The Directors who served are as follows

Pablo Andres	
Kevin Brown	Resigned 31 July 2010
David Lees	Appointed 31 July 2010
Fidel Lopez	Appointed 1 November 2010
Stephen Peat	Resigned 1 November 2010

Company secretary
Pursuant to section 270 of the Companies Act 2006, a private company registered within England or Wales is not required to have a company secretary The Company availed itself of this exemption and consequently on 31 August 2010 Shu Mei Ooi resigned

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 18 days purchases outstanding at 31 December 2010 (2009 26 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 Risk is centrally managed for the BAA Group as part of corporate services provided under the Shared Services Agreement ('SSA') (refer to the Accounting policies) The Executive Committee and Board referred to in the notes below relate to the Executive Committee and Board of BAA Limited

In addition, the Company has a Managing Responsibly Governance Group ('MRGG'), comprised of functional heads, which oversees the management of risks in the airport's operation The MRGG 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 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, security, environment, reputation and finance in pursuit of the BAA Group's strategic framework

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 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 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 corporate and reputational risks as identified by the Executive Committee and the MRGG are

Directors' report *continued*

Risk management ***continued***

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 the Company's business The Company also operates robust asset selection and inspection and maintenance programmes to ensure property and equipment remain safe Governance, led by the MRGG, and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement

Security risks

Security risks are regarded as important risks to manage throughout Southampton airport The Company mitigates this risk 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 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 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, 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 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 involvement in constructive engagement with its airline customers In order to manage the risk of adverse airline relations, the Company consults with airlines on issues that are likely to have a material impact on their business 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 on-going requirements are articulated and understood

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 Refer to the Review of business and future developments section for details on the Airport economic regulation review

Capacity shortfall

Southampton 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

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 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 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 airport 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 Southampton 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

Directors' report *continued*

Risk management *continued*

Commercial and financial risk management objectives and policies continued

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

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 2011 pay negotiations started in late January 2011 The Company could also be exposed to the effect of industrial action involving other key stakeholders in the aviation sector such as airlines, air traffic controllers and baggage handlers

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, the company where external funds are borrowed and on-lent to the Company and the level at which financial risks for the Company are managed 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 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 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 2010, 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 £1,255 0 million of bank credit facilities The NDH1 Group is broadly cash neutral As at 31 December 2010, the NDH1 Group's cash at bank was £29 4 million (including £20 4 million in restricted cash) and undrawn headroom under the bank credit facilities was £200 0 million

Funds are borrowed by BAA (NDH1) Limited and on-lent to its subsidiary companies through intercompany loans

Covenants are standardised wherever possible and are monitored on an on-going basis with formal testing reported to the Board and 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 a range of 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-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 credit ratings below BBB+/A

Directors' report *continued*

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

Auditors

Pursuant to the provision of section 485(4) of the Companies Act 2006, an ordinary resolution was made by the Directors to appoint Deloitte LLP as Auditors of the Company for the year ended 31 December 2010

Statement of disclosure of information to the Auditors

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 auditors are 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 auditors are 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

29 March 2011

Company registration number 02431858

Southampton International Airport Limited

Directors' responsibilities statement

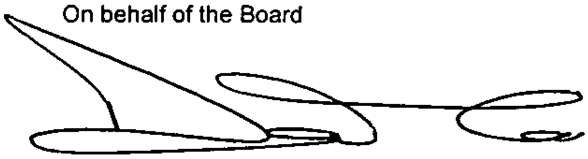
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

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

29 March 2011

Southampton International Airport Limited

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 2010 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 18 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 auditors
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

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 2010 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 matter 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

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

29 March 2011

Southampton International Airport Limited

Profit and loss account for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Turnover	*1*	**27,283**	26,647
Operating costs - ordinary	*2*	**(20,482)**	(20,396)
Operating gain/(costs) - exceptional	*0*	**1,995**	(4,985)
Total operating costs		**(18,487)**	(25,381)
Operating profit		**8,796**	1,266
Net interest receivable/(payable)	*4*	**43**	(60)
Profit on ordinary activities before taxation		**8,839**	1,206
Tax charge on profit on ordinary activities	*5*	**(2,567)**	(307)
Profit on ordinary activities after taxation	*13*	**6,272**	899

All profits 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 2010

	Note	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Profit for the financial year	*13*	**6,272**	899
Unrealised gain/(loss) on revaluation of investment properties	*6,13*	**11,293**	(2,967)
Revaluation adjustment		**-**	28
Total recognised gains and losses relating to the year		**17,565**	(2,040)

Reconciliation of movements in shareholder's funds for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Profit for the financial year	*13*	**6,272**	899
Unrealised gain/(loss) on revaluation of investment properties	*6,13*	**11,293**	(2,967)
Revaluation adjustment		**-**	28
Capital contribution	*13*	**1,935**	-
Tax charge on capital contribution	*11,13*	**(522)**	-
Net movement in shareholder's funds		**18,978**	(2,040)
Opening shareholder's funds		**104,522**	106,562
Closing shareholder's funds		**123,500**	104,522

Southampton International Airport Limited

Balance sheet as at 31 December 2010

	Note	**31 December 2010** £'000	Restated[1] 31 December 2009 £'000
Fixed assets			
Tangible fixed assets	6	**124,619**	110,949
Total fixed assets		**124,619**	110,949
Current assets			
Stocks	7	**80**	131
Debtors	8	**10,878**	6,902
Cash at bank and in hand		**-**	1
Total current assets		**10,958**	7,034
Current liabilities			
Creditors amounts falling due within one year	9	**(5,448)**	(6,373)
Net current assets		**5,510**	661
Total assets less current liabilities		**130,129**	111,610
Creditors amounts falling due after more than one year	10	**(3,160)**	(1,132)
Provisions for liabilities and charges	11	**(3,469)**	(5,956)
Net assets		**123,500**	104,522
Capital and reserves			
Called up share capital	12	**40,000**	40,000
Revaluation reserve	13	**42,964**	31,671
Profit and loss reserve	13	**40,536**	32,851
Total shareholder's funds		**123,500**	104,522

[1] The presentation of certain balances for the year ended 31 December 2009 has been restated to be consistent with current year disclosures

The financial statements of Southampton International Airport Limited (Company registration number 02431858) were approved by the Board of Directors and authorised for issue on 29 March 2011 They were signed on its behalf by

Fidel López
Director

David Lees
Director

Accounting policies for the year ended 31 December 2010

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 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 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 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 and its forecast financial ratios

As a result of the review and 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

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

Retail
- Concession fees from retail and commercial concessionaires at or around the airport are based upon turnover certificates supplied by concessionaires
- Car parking income is recognised at the time of exiting the car park in accordance with operator management fee arrangements

Property and operational facilities
- Property letting sales, 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 (eg check-in desks), recognised as each service is provided
- Other invoiced sales, recognised on the performance of the service

Exceptional items
The Company presents, on the face of the profit and loss account, disclosure of 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 businesses, 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 Limited group (the 'BAA Group') defined benefit pension scheme deficit under the Shared Services Agreement are also treated as an exceptional item Refer to the Shared Services Agreement accounting policy

Additional details of exceptional items are provided as and when required as set out in Note 0

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

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 2010 *continued*

Tangible fixed assets *continued*
Depreciation continued
Asset 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

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 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

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 rate method, 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

Creditors
Creditors are recognised initially at cost and subsequently measured at amortised cost, using the effective interest rate method

Amounts owed to group undertakings
Amounts owed to group undertakings are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost 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

Accounting policies for the year ended 31 December 2010 *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

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 plans 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, 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 employee share options All of the amounts included in the abovementioned costs are settled in cash except for superannuation costs and 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 Group pension schemes are recharged to the Company on the basis of its pensionable pay base This charge is included within ordinary staff pension costs

Cash contributions are made directly by the Company to the BAA Group defined benefit and defined contribution pension schemes 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 has had a legal obligation since August 2008 to fund its share of the BAA Group defined benefit pension scheme deficit and Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits 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 of those employees being in the defined benefit scheme 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

The BAA Group operates a defined contribution pension scheme for all employees who joined the Company after 15 June 2008 The total cost of defined contribution pension arrangements are fully expensed as employment costs The Company has no further payment obligation once the contributions have been paid

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

Accounting policies for the year ended 31 December 2010 *continued*

Current and deferred taxation *continued*
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 reporting 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 income taxation is determined using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date and are expected to apply when the related deferred tax asset or liability is realised or settled

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 2010 The results are also included in the audited consolidated financial statements of BAA (NDH1) Limited for the year ended 31 December 2010 (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 2010 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)' However, a summary cash flow statement has been provided on a voluntary basis and is included 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, 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

Significant accounting judgements and estimates for the year ended 31 December 2010

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 area presents the greatest level of uncertainty

Investment properties

Investment properties were valued at fair value at 31 December 2010 by CB Richard Ellis, Chartered Surveyors (2009 Drivers Jonas, Chartered Surveyors) The 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 Independent valuations were obtained for 100% of the investment properties Approximately 96% of the investment properties comprise car parks and airside assets at the airport that are considered less vulnerable to market volatility than the overall market

Southampton International Airport Limited

Notes to the financial statements for the year ended 31 December 2010

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 2010 £'000	Year ended 31 December 2009 £'000
Turnover		
Aeronautical income	**15,861**	15,918
Retail income	**9,019**	8,545
Operational facilities and utilities income	**333**	352
Property rental income	**1,244**	1,110
Other income	**826**	722
	27,283	26,647

2 Operating costs - ordinary

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Wages and salaries	**5,455**	5,064
Social security	**435**	389
Pensions	**699**	583
Other staff related costs	**319**	291
Share based payments	**33**	52
Employment costs[1]	**6,941**	6,379
Maintenance expenditure	**1,158**	1,260
Utility costs	**814**	735
Rents and rates	**1,023**	945
General expenses	**1,312**	1,503
Retail expenditure	**1,068**	993
Intra-group charges/other	**1,683**	2,078
Aerodrome navigation service charges	**3,377**	3,305
Depreciation	**3,106**	3,193
Loss on disposal of tangible fixed assets	**-**	5
	20,482	20,396

[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 2010 £'000	Year ended 31 December 2009 £'000
Operating costs include		
Plant and machinery	1	2
Other operating leases	52	45

Notes to the financial statements for the year ended 31 December 2010 *continued*

2 Operating costs – ordinary *continued*

Auditors' remuneration

Audit fees and non-audit fees for the current and preceding financial years were borne by BAA Airports Limited and recharged in accordance with the SSA as described within the Accounting policies

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Fees payable to the Company's auditors for the audit for the Company's annual accounts[1]		
Audit of the Company pursuant to legislation	5	17
Fees payable to the Company's auditors and their associates for other services for other services specific to the Company		
Other services	-	11
Total fees	5	28

[1] Auditors' remuneration for the year ended 31 December 2010 relates to Deloitte LLP following their appointment on 1 April 2010 as statutory auditors (2009 PricewaterhouseCoopers LLP)

Employee information

The Company has no employees (2009 nil) However, staff costs of 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 The average number of employees of BAA Airports Limited engaged in the operation of Southampton airport during the year was 170 (2009 171) The number of employees does not include headcount related to central support functions for the Company which are rendered by BAA Airports Limited and charged as intra-group charges in accordance with the SSA

Directors' remuneration

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Directors' remuneration		
Aggregate remuneration	96	-
Value of Company pension contributions to defined benefit scheme	15	-
	111	-

	Year ended 31 December 2010 Number	Year ended 31 December 2009 Number
Number of directors who		
are members of a defined benefit pension scheme	1	4

Pablo Andres and Stephen Peat were directors of a number of companies within the BAA Group Both were paid by, but are not directors of, BAA Airports Limited Kevin Brown was a director of a number of companies within the BAA Group, including Aberdeen Airport Limited His remuneration was paid by Aberdeen Airport Limited during the period in which he was director The Directors do not believe it is possible to accurately apportion their remuneration to individual companies within the BAA Group based on services provided

In accordance with a long-term incentive scheme, a cash amount could be awarded to one of the five directors who held office during 2010 which vests in 2012 contingent on achieving or surpassing certain EBITDA targets of the BAA Group over a three year period As the financial performance is uncertain at this stage no value in relation to this award is disclosed

No directors (2009 none) exercised any share options during the year and no shares (2009 none) were received or became receivable under long-term incentive plans

3 Operating gain/(costs) - exceptional

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Pension credit/(charge)	1,995	(4,985)

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

During 2010 there was a net exceptional pension credit of £1,995,000 (2009 £4,985,000 charge) This included a £1,995,000 credit (2009 £4,726,000 charge) in relation to the push down of the Company's share of the reduction in the deficit on the BAA Group defined benefit pension scheme and £nil (2009 £259,000 charge) in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits, in accordance with the SSA For more information on pension costs charged refer to the SSA in the Accounting policies

4 Net interest receivable/(payable)

	Note	Year ended 31 December 2010 £'000	Restated[1] Year ended 31 December 2009 £'000
Interest receivable from group undertakings[2]		55	24
Interest payable to group undertakings[3]		(58)	(113)
Interest capitalised[4]	6	46	29
Net interest receivable/(payable)		**43**	(60)

[1] The presentation of certain balances for the year ended 31 December 2009 has been restated to be consistent with current year disclosures
[2] These amounts relate mainly to interest accrued on balances due from BAA (NDH1) Limited (Note 8)
[3] These amounts relate to interest due on the loan from BAA (NDH1) Limited (Note 10)
[4] Capitalised interest is calculated by applying an average capitalisation rate of 2 31% (2009 2 54%) to expenditure incurred on qualifying 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 2010 £'000	Year ended 31 December 2009 £'000
Current tax			
Group relief payable		1,630	1,375
Adjustments in respect of prior periods		26	(3)
Total current tax		1,656	1,372
Deferred tax			
Origination and reversal of timing differences			
current period		923	(1,018)
prior periods		13	(47)
Change in tax rate – impact on deferred tax liabilities		(25)	-
Total deferred tax	11	911	(1,065)
Tax charge on profit on ordinary activities		**2,567**	**307**

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 28% (2009 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 2010 £'000	Year ended 31 December 2009 £'000
Profit on ordinary activities before tax	8,839	1,206
Tax on profit on ordinary activities at 28% (2009 28%)	2,475	338
Effect of		
Permanent differences	112	18
Capital allowances for the year in excess of depreciation	(159)	(97)
Capitalised interest	(12)	(8)
Other short term timing differences	(786)	1,124
Adjustments to tax charge in respect of prior periods	26	(3)
Current tax charge for the year	**1,656**	1,372

It was substantively enacted at the reporting date that the standard rate of corporation tax in the UK would change to 27% with effect from 1 April 2011 On 23 March 2011 the Government announced its intention to introduce legislation for further reductions in the rate of corporation tax to 26% from 1 April 2011 and 25% from 1 April 2012 Other than changes to the tax rate and the unprovided deferred tax discussed in Note 11, there are no items which would materially affect the future tax charge

Notes to the financial statements for the year ended 31 December 2010 *continued*

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 2010		50,300	21,963	36,566	7,816	14,087	3,162	133,894
Additions at cost		-	-	-	-	22	5,415	5,437
Transfers to completed assets		7	4,052	78	40	649	(4,826)	-
Interest capitalised	*4*	-	-	-	-	-	46	46
Reclassifications		-	909	(199)	39	(749)	-	-
Revaluation surplus	*13*	11,293	-	-	-	-	-	11,293
31 December 2010		**61,600**	**26,924**	**36,445**	**7,895**	**14,009**	**3,797**	**150,670**
Depreciation								
1 January 2010		-	(5,822)	(4,607)	(1,472)	(11,044)	-	(22,945)
Charge for the year		-	(1,238)	(429)	(327)	(1,112)	-	(3,106)
Reclassifications		-	(681)	58	(32)	655	-	-
31 December 2010		-	**(7,741)**	**(4,978)**	**(1,831)**	**(11,501)**	-	**(26,051)**
Net book value 31 December 2010		**61,600**	**19,183**	**31,467**	**6,064**	**2,508**	**3,797**	**124,619**
Net book value 31 December 2009		50,300	16,141	31,959	6,344	3,043	3,162	110,949

[1] Included in investment properties are assets with a carrying value of £59,350,000 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 2010 *continued*

6 Tangible fixed assets ***continued***

Valuation
Investment properties were valued at open market value at 31 December 2010 by CB Richard Ellis, Chartered Surveyors (2009 Drivers Jonas, Chartered Surveyors) at £61,600,000 (2009 £50,300,000) 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 surplus of £11,293,000 (2009 deficit of £2,967,000) has been recognised in the revaluation reserve The revaluation gain 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 2010 was £18,635,000 (2009 £18,628,000)

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 2010 include work on the terminal's retail facilities, terminal forecourt security protection and upgrades to airfield assets

Capitalised interest
Included in the cost of assets after depreciation are interest costs of £766,400 (2009 £738,400) £46,000 (2009 £29,000) has been capitalised in the year at an average capitalisation rate of 2 31% (2009 2 54%) based on the cost of the NDH1 Group's capital expenditure facility

A tax deduction of £46,000 (2009 £29,000) 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 2010	31 December 2009
	£'000	£'000
Cost or valuation	**62,852**	50,998
Accumulated depreciation	**(349)**	(185)
Net book amount	**62,503**	50,813

Freehold property is occupied by third parties under management agreements

7 Stocks

	31 December 2010	31 December 2009
	£'000	£'000
Raw materials and consumables	**80**	131

The replacement cost of raw materials and consumables at 31 December 2010 and 31 December 2009 was not materially different from the amount at which they are included in the Balance sheet

Southampton International Airport Limited

Notes to the financial statements for the year ended 31 December 2010 *continued*

8 Debtors

	31 December 2010 £'000	31 December 2009 £'000
Trade debtors	**2,423**	1,709
Amounts owed by group undertakings - interest free[1]	**615**	1,542
Amounts owed by group undertakings - interest bearing[2]	**5,716**	2,533
Amounts owed by group undertakings - pensions[3]	**1,537**	735
Other debtors	**204**	142
Prepayments	**330**	217
Interest receivable from group undertakings	**53**	24
	10,878	6,902

[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 2010, the balance accrues interest at a rate of 2 62% per annum (2009 2 46%)

[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 2010 £'000	Restated[1] 31 December 2009 £'000
Trade creditors[2]	**2,495**	2,629
Capital creditors	**1,629**	2,045
Amounts owed to group undertakings - interest free[3]	**47**	106
Corporation tax payable	**443**	443
Group relief payable	**388**	747
Other creditors	**30**	83
Other taxes and social security costs	**126**	125
Deferred income	**262**	186
Interest payable to group undertakings	**28**	9
	5,448	6,373

[1] The presentation of certain balances for the year ended 31 December 2009 has been restated to be consistent with current year disclosures

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

[3] 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 2010 £'000	Restated[1] 31 December 2009 £'000
Amounts owed to group undertakings - interest bearing[2]	**3,160**	1,132

[1] The presentation of certain balances for the year ended 31 December 2009 has been restated to be consistent with current year disclosures

[2] 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 2010, the balance accrues interest at a rate of 2 62% per annum (2009 2 46%)

11 Provisions for liabilities and charges

	Note	Deferred tax (a) £'000	Reorganisation costs (b) £'000	Pension costs (c) £'000	Total £'000
1 January 2010		708	155	5,093	5,956
Charged/(credited) to profit and loss account	*5,0*	911	151	(1,995)	(933)
Utilised in the year		-	(141)	-	(141)
Charged/(credited) to profit and loss reserve	*13*	522	-	(1,935)	(1,413)
31 December 2010		**2,141**	**165**	**1,163**	**3,469**

Southampton International Airport Limited

Notes to the financial statements for the year ended 31 December 2010 *continued*

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

	31 December 2010 £'000	31 December 2009 £'000
Excess of capital allowances over depreciation	1,870	1,752
Other timing differences	272	(1,044)
	2,142	708

Analysis of the deferred tax balance is as follows

	Un-provided 31 December 2010 £'000	Un-provided 31 December 2009 £'000
Tax on chargeable gains if investment properties were sold at their current valuations	10,508	8,105

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 £10,508,000 (2009 £8,105,000) At present it is not envisaged that this tax will become payable in the foreseeable future

The effect of the changes enacted in the Finance (No 2) Act 2010 has been to reduce the deferred tax provided at 31 December 2010 by £25,000 with a corresponding decrease in the tax charge for the year of £25,000 as shown at Note 5 This decrease in the deferred tax liability is due to the reduction in the UK standard rate of corporation tax from 28% to 27% with effect from 1 April 2011, as substantively enacted at the reporting date

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

(c) Pension costs
This provision represents the legal obligation the Company has under the SSA to fund its share of the BAA Group pension deficit and related pension liabilities, and will only be settled when the cash outflow is requested by BAA Airports Limited

£796,000 (2009 £4,726,000) of the provision relates to the push down of the Company's share of the deficit on the BAA Group defined benefit pension scheme The provision has decreased because of the reduction in the deficit which is partly due to updated actuarial assumptions, particularly higher than expected investment returns In addition, a commutation payment was made into the scheme following the disposal of Gatwick Airport Limited This has been reflected as a capital contribution in the profit and loss account reserve The remaining £367,000 (2009 £367,000) 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

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

12 Share capital

	£'000
Authorised	
1 January and 31 December 2010	
50,000,000 ordinary shares of £1 each	**50,000**
Called up, allotted and fully paid	
1 January and 31 December 2010	
40,000,002 ordinary shares of £1 each	**40,000**

Southampton International Airport Limited

Notes to the financial statements for the year ended 31 December 2010 *continued*

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	6	11,293	-	11,293
Capital contribution		-	1,935	1,935
Tax charge on capital contribution	*11*	-	(522)	(522)
31 December 2010		**42,964**	**40,536**	**83,500**

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

14 Commitments

Commitments for capital expenditure
Contracted capital expenditure commitments amount to £797,000 (2009 £1,266,000)

Commitments under operating leases
At 31 December 2010, the Company was committed to making the following payments during the next year in respect of operating leases

	31 December 2010		31 December 2009	
	Land & buildings £'000	**Other leases £'000**	Land & buildings £'000	Other leases £'000
Leases which expire				
within one year	8	2	50	4
within two to five years	-	-	-	1
	8	2	50	5

Other commitments
In July 2008, the BAA Group reached agreement with the Trustee of the BAA Group defined benefit pension scheme to contribute £80 0 million per annum for a period of three years ending 31 December 2011 The Company expects to contribute its share of this amount, estimated at approximately £1 5 million, to the pension scheme in the year ending 31 December 2011

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 2009, the ESOP swaps held in BAA Airports Limited had a fair value loss of £75 6 million (2009 £69 9 million) The Company may be obligated to settle its share of these amounts in the future, which is approximately £1 5 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 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 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

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 in the UK to consolidate these financial statements The shareholders of FGP Topco Limited are Finecofer S L (55 9%) (a subsidiary of Ferrovial S A), Britannia Airport Partners L P (26 5%) (a Caisse de depôt et placement du Québec-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 2010, 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 2010

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 2010 £'000	Year ended 31 December 2009 £'000
Operating profit	**8,796**	1,266
Adjustments for		
Depreciation	**3,106**	3,193
Loss on disposal of tangible fixed assets	**-**	5
Working capital changes		
Increase in stock and debtors	**(3,094)**	(2,112)
Decrease in creditors	**(169)**	(3,345)
Increase/(decrease) in provisions	**10**	(172)
Difference between pension charge and cash contributions	**(802)**	(665)
Exceptional pension (credit)/charge	**(1,995)**	4,985
Net cash inflow from operating activities	**5,852**	3,155
Taxation – group relief paid	**(2,015)**	(431)
Net capital expenditure	**(5,853)**	(3,222)
Net cash inflow/(outflow) before financing	**(2,016)**	(498)
(Decrease)/increase in amounts owed to group undertakings	**2,015**	499
(Decrease)/increase in cash	**(1)**	1

18 Post balance sheet events

There were no significant post balance sheet events

AIRPORTS ACT 1986

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

YEAR ENDED 31 DECEMBER 2010

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 29 March 2011

David Lees
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 2010.

	Income £'000	Expenditure £'000	Profit before interest and tax £'000
Operational activities:			
Airport charges	15,861	(12,503)	3,358
Other operational activities	11,423	(6,565)	4,858
Total operational activities	27,283	(19,068)	8,216
Non-operational activities	-	-	-
Total	27,283	(19,068)	8,216

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 2010

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 2010.

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 2010

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 2010 is £5 7 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 2010 is £3 2 million

Funding and liquidity

The NDH1 Group is financed through £1,255 0 million of bank credit facilities The NDH1 Group is broadly cash neutral As at 31 December 2010, the NDH1 Group's cash at bank was £29 4 million (including £20 4 million in restricted cash) and undrawn headroom under the bank credit facilities was £200 0 million

Funds are borrowed by BAA (NDH1) Limited and on-lent to its subsidiary companies through intercompany loans

Covenants are standardised wherever possible and are monitored on an on-going 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, 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 2010, the ESOP swap held in BAA Airports Limited had a fair value loss of £75 6 million The Company may be obligated to settle its share of these amounts in the future which is approximately £1 5 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

Other Transactions

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

Deloitte.

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Middlesex
TW6 2GW

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

29 March 2011

Dear Sirs

Report of Factual Findings of the Permission to Levy Charges for Southampton International Airport Limited

We have performed the following procedures as agreed with Southampton International Airport Limited (the "Airport") and the Civil Aviation Authority (the "CAA") in connection with the Airport's submission of Permission to Levy Charges, in accordance with the International Standard on Related Services Engagements "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" as per our engagement letter dated 31 January 2011 The procedures were performed solely for the purpose of assisting the Airport in the submission of the Transparency Statements to the CAA (the "Statement") as required by the CAA under section 46(2) of the Airports Act 1986

The directors are responsible for the preparation of Transparency Statements A to C, 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 controls 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 Airport Act 1986 and ensuring that the Airport prepares the Transparency Statements as required by the CAA under Section 40(1) of the Airport Act 1986 The Statement, for which the directors of the Airport are solely responsible, is attached to this report

This report has been prepared for and only for the Airport and the CAA for the purpose of assisting the Airport in the submission of the Transparency Statements to the CAA (the "Statement") as required by the CAA under section 40(1) of the Airports Act 1986 We do not, in issuing this report, 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 our work and factual findings

Procedures	Findings
1 Obtain a copy of the Accounts Condition Statements A-C as prepared by the Airport's directors, according to the template described in Appendix 3 to our engagement letter dated 31 January 2011,	Done and no exceptions noted

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2 Obtain a signed copy of the audited Financial Statements of the Airport for the year under review (31st December 2010) and formally approved by the Airport's directors Agreed total income and expenditure and total profit before interest and tax recorded in Statement A of the Accounts Condition Statements to the audited Financial Statements of the Airport to the year under review,	Done and no exceptions 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 Agreed 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 in the preparation of Statement A,	Done and no exceptions noted
5 Agreed 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 Statement C,	Done and no exceptions noted
7 Agreed the allocations of income, expenditure and profit before interest and tax statement in Statement A have been prepared in accordance with the procedures set out in B, and	Done and no exceptions noted
8 Checked that any necessary amendments to the Statement arising from the above work were correctly reflected in the final Statements approved by the Directors	Done and no exceptions noted

The scope of our work in preparing this report ("Report") was limited solely to those procedures set out above Accordingly we do not express any opinion or overall conclusion on the procedures we have performed You are responsible for determining whether the scope of our work specified is sufficient for your purposes and we make no representation regarding the sufficiency of these procedures for your purposes If we were to perform additional procedures, other matters might come to our attention that would be reported to you

Our Report should not be taken to supplant any other enquiries and procedures that may be necessary to satisfy the requirements of the recipients of the Report

The procedures we performed did not constitute a review or an audit of any kind We did not subject the information contained in our Report or given to us by the Directors to checking or verification procedures except to the extent expressly stated above This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit The procedures we performed were not designed to and are not likely to reveal fraud

Audit work

The audit work of Deloitte LLP on the financial statements of the Company was carried out in order to report to the Company's members as a body in accordance with the statutory obligations under the Companies Act 2006 and any other statutory obligation and is subject to a separate engagement letter The audit work was undertaken to state to the Company's members those matters required to be stated in an auditor's report and for no other purpose The audits of the Company's financial statements were not

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planned or conducted to address or reflect matters in which anyone other than such members as a body may be interested

In particular, the scope of the audit work was set and judgements made by reference to the assessment of materiality in the context of the audited accounts taken as a whole, rather than in the context of the Report contemplated in this letter Deloitte LLP have not expressed an opinion or other form of assurance on individual account balances, financial amounts, financial information or the adequacy of financial, accounting or management systems

Deloitte LLP do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for their audit work, for their audit report or for the opinions they have formed To the fullest extent permitted by law, Deloitte LLP do not accept or assume responsibility or liability to anyone by virtue of this engagement or our Report in relation to our audits of the Company's financial statements

Use of Report

Our Report has been prepared solely for your exclusive use and solely for the purpose specified above Our Report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent We accept no duty, responsibility or liability to any other party in connection with the Report or this engagement

Yours faithfully

Deloitte LLP

Deloitte LLP
Chartered Accountants
London