Southampton International Airport Limited
Annual report and financial statements
for the year ended 31 December 2015

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Company registration number 02431858

Southampton International Airport Limited

Contents

Southampton International Airport Limited

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Southampton International Airport Limited

Strategic report

The Company is the owner and operator of Southampton Airport.

This strategic report is presented under three sections:

Management review – overview of the year ended 31 December 2015, along with the key factors likely to impact the Company in 2016.
Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2015 and analysis of the financial position of the Company as at that date. The Company's accounting and reporting policies and procedures are also considered.
Internal controls and risk management – outline of the Company's internal controls, approach to risk management, sources of assurance and highlights of the key business risks identified by the Group Executive Committee.

Management Review
Review of business and future developments
Key events occurring during the year and developments since the beginning of 2016 are detailed below.

Passenger traffic
Passenger traffic for the year ended 31 December 2015 is analysed below:

	Year ended 31 December 2015	Year ended 31 December 2014	Change[1] %
Passengers by market served (millions)			
UK	**0.82**	**0.78**	4.0
International[2]	**0.96**	**1.05**	(8.1)
Total passengers	**1.78**	**1.83**	(2.9)

[1] These figures have been calculated using un-rounded passenger numbers.
[2] Channel Islands traffic is included in International traffic

In the year ended 31 December 2015, passenger traffic decreased 2.9% to 1.78 million (2014: 1.83 million). The performance reflects 4.0% growth in domestic traffic and 8.1% decrease in international traffic.

Domestic destinations generating the most growth included Aberdeen/Leeds (126%) and Newcastle (10%). Traffic to Glasgow decreased 8% and small reductions were seen on Manchester (-5%) and Edinburgh (-4%).

For International destinations, there was significant growth on passenger traffic to Faro (8%) and La Rochelle (32%), while there were reductions in Guernsey (-21%), Paris (-10%), Jersey (-6%) and Dublin (-4%).

Investment in airport facilities
During the year ended 31 December 2015, Southampton airport invested £3.1 million (2014: £3.7 million).

Major capital investment for 2015 included replacement of the fire training simulator and landside buses, works were also completed to refurbish areas of the aircraft stands. Major new projects commenced for delivery in subsequent years including a project to combine the Airport's two control centres and reduce headcount and the preferred option was developed and approved to replace the runway drainage and meet discharge legislation.

Service standards

The Company continues to focus on delivering consistently high service standards, a key strategic priority. It also expects improving service standards to play a key part in driving cost efficiency.

Departure punctuality (as measured by the proportion of aircraft departing within 15 minutes of schedule) was 82.7% (2014: 81.2%).

Southampton Airport participates in the Airport Council International Airport Service Quality benchmarking survey which includes over 90 European airports and hundreds worldwide. The efforts of Southampton airport resulted in the achievement of finishing top of the 2015 UK Airport rankings.

The service Quality (ASQ) passenger satisfaction score in Quarter 4 of 2015 recorded 4.26 out of a maximum score of 5. The average for 2015 was a score of at 4.24 (2014: 4.11) out of 5.

Strategic Report *Continued*

Developments since beginning of 2016

In January 2016, Flybe announced they would introduce new destinations of Biarritz and Toulon in their schedule for the summer of 2016 as well as resume their route to Bastia. In February 2016, BMI Regional announced that it would introduce new routes from Southampton to Munich that would operate from April 2016 with 12 flights per week. KLM will also introduce double daily services to Amsterdam commencing in mid May.

Outlook

In light of the above, together with the expectation of improved average load factors for 2016 relative to 2015, the Company expects passenger traffic in 2016 to increase above 2015 levels.

Strategic Report *continued*
Financial review

Introduction
The following financial review provides commentary on the performance of the Company during the year ended 31 December 2015.

	Year ended 31 December 2015 £'000	Year ended 31 December 2014[1] £'000
Turnover	**27,565**	27,424
Adjusted operating costs[2]	**(20,121)**	(20,265)
Adjusted EBITDA[3]	**7,444**	7,159
Non-recurring items	**-**	(33,344)
EBITDA	**7,444**	(26,185)
Fair value gain on investment properties	**3,850**	1,985
Depreciation	**(2,354)**	(3,604)
Operating profit	**8,940**	(27,804)
Interest receivable and similar charges	**2,103**	749
Interest payable and similar charges	**(1,217)**	(112)
Profit before tax	**9,826**	(27,167)
Taxation	**(390)**	(1,436)
Profit for the year	**9,436**	(28,603)

[1] 2014 restated for the transition to FRS 101. For more information see Note 21.
[2] Adjusted operating costs are stated before depreciation and non-recurring items.
[3] Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, certain re-measurements and non-recurring items.

Adjusted operating costs

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Employment costs	**8,910**	9,208
Maintenance expenditure	**1,718**	2,068
Utility costs	**743**	711
Rents and rates	**1,338**	1,359
General expenses	**6,417**	5,960
Retail expenditure	**964**	959
Disposal of fixed assets	**31**	-
Total adjusted operating costs	**20,121**	20,265

In the year ended 31 December 2015, operating costs decreased by 0.7% to £20,121k (2014: £20,265k).

The main drivers of the decrease in operating costs were decreased employment costs primarily due to reduced bonus, partly offset by wage inflation. In addition, maintenance expenditure was higher in 2014 due to the cost of the pavement & lighting works and increased contractor costs.

Adjusted EBITDA
Adjusted EBITDA in the year ended 31 December 2015 increased by 4.0% to £7,444k (2014: £7,159k).

Non-recurring items - *Pension charge*
This item relates to a non-cash pension charge (2015: £nil, 2014: £1,844k) and is considered to be non-recurring by virtue of size. The charge arose from the Group's share of the movement in the LHR Airports Limited defined benefit pension scheme, Unfunded Unapproved Retirement Benefit Scheme (UURBS) and Post-Retirement Medical Benefits pension (PRM) related liabilities.

Post 18 December 2014, the Company is a participating employer in the AGS Airports defined benefit pension scheme and the assets of the scheme are held separately from those of the company.

Strategic Report *continued*
Financial review *continued*

Non-recurring items - *Impairment of subsidiary*
Following an internal management review, an impairment (2015: £nil, 2014: £31.5 million) was recorded against the airport assets due to economic obsolescence.

Fair value movements on investment properties
Investment properties were valued at fair value by CBRE Limited, Chartered Surveyors. Investment properties comprise mainly car parks and airside assets that are considered less vulnerable to market volatility than the overall market. The investment property valuation as at 31 December 2015 resulted in a gain of £3,850k (2014: £1,985k).

Fair value movements on investment properties are presented on the profit and loss account as a result of the transition to FRS 101. For more information see Note 21.

Depreciation
Depreciation for the year ended 31 December 2015 was 34.7% lower than the prior year at £2,354k (2014: £3,604k), this reflects the impact of the 2014 impairment.

Dividend
No dividend was paid or declared in the year ended 31 December 2015 (2014: £nil).

Pension scheme
AGS Airports Limited created its own defined benefit pension scheme on 18th December 2014 to provide benefits for those employees who were previously members of the LHR Airports Scheme. The AGS scheme actuary has calculated the share of the pension scheme assets and liabilities attributable to each of the participating employers, being the Airport trading companies. Initial advice was received from the AGS scheme actuary on the value of the bulk transfer of pension assets and obligations as at 18th December 2014 for the purposes of accounting under IAS 19 together with an estimate of the required level of funding for 2015. Separately, the trustees of the scheme engaged in negotiations with the trustees of the LHR Airports scheme to finalise the amount of the bulk transfer in respect of members transferring over to the AGS Airports scheme. This exercise was concluded in July 2015 and a formal valuation performed. Going forward the scheme will be subject to a triennial valuation.

At 31 December 2015, AGS Airports Limited defined benefit pension scheme had a surplus of £9,497k (2014: £8,668k) as measured under IAS 19. The Company's share of this surplus amounts to £1,353k (2014: £1,182k).

Going concern
The Company finances its activities through funds generated from operations and has access to inter group funding from its parent companies.

The Company's trading and cash flow projections identify that the business will be cash generative through the period ended 31 March 2017. The bank borrowings of the AGS Airports Holdings Limited group are secured over the assets. The directors having considered and made appropriate enquiries of management as to the assumptions underlying the projections have a reasonable expectation that the company and Group will continue in operational existence for the foreseeable future. Accordingly the going concern basis continues to be adopted in the preparation of the financial statements.

Strategic report *continued*
Internal controls and risk management

Subsequent to the acquisition of the group by AGS Airports Limited, Internal control and risk management became the responsibility of the AGS Airports Holdings Group. The Executive Committee, Board and Audit and Risk Committee ('ARC') referred to below relate to the Executive Committee, Board and ARC of AGS Airport Holdings Group.

Internal controls
The directors are responsible for the system of internal controls designed to mitigate the risks faced by the Company and for reviewing the effectiveness of the system. This is implemented by applying the Group internal control procedures, supported by a Code of Professional Conduct Policy, appropriate segregation of duties controls, organisational design and documented procedures. These internal controls and processes are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatements or loss.

The key features of the Company's internal control and risk management systems in relation to the financial reporting process include:

- a company-wide comprehensive system of financial reporting and financial planning and analysis;
- documented procedures and policies;
- defined and documented levels of delegated financial authority;
- an organisational structure with clearly defined and delegated authority thresholds and segregation of duties;
- a formal risk management process that includes the identification of financial risks;
- detailed reviews by the Executive Committee and the Board of monthly management accounts measuring actual performance against both budgets and forecasts on key metrics;
- The ARC review of financial results press releases and key interim and annual financial statements, before submission to the Board, scrutinising amongst other items;
    - compliance with accounting, legal, regulatory and lending requirements
    - critical accounting policies and the going concern assumption
    - significant areas of judgement;
- independent review of controls by the Internal Audit function, reporting to the AC; and
- a confidential whistleblowing process.

In addition, the ARC:

- considers the appointment of the external auditor, making appropriate recommendations to the Board, and assesses the independence of the external auditor;
- ensures that the provision of non-audit services does not impair the external auditor's independence or objectivity;
- discusses with the external auditor, before the audit commences, the nature and the scope of the audit and reviews the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;
- reviews external auditor management letters and responses from management;
- has a standing agenda to meet privately with the external auditor independent of the executive directors; and
- reviewed the scope, operations and reports of the Company's Internal Audit function on the effectiveness of systems for internal financial control, financial reporting and risk management.

Principal Risks and Uncertainties and Risk Management
The Company's risk management process is used to facilitate the identification, evaluation and effective management of the threats to the achievement of the Company's purpose, vision, objectives, goals and strategies. The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that day-to-day activities are managed effectively and all significant business decisions are risk-informed.

Risk is locally overseen by the Company's Managing Responsibly Governance Group ('MRGG') which meets on a monthly basis, is chaired by the Company's Managing Director and consists of functional heads. The MRGG is linked with the key strategic intent to 'Run our Airport Responsibly.'

Strategic report *continued*
Internal controls and risk management *continued*

Principal risks and uncertainties and risk management continued

The risk management process is evidenced in risk registers which are used as the basis for regular review of risks and their management, up to AGS Airports Holdings Limited Board level. The risk registers are also used to inform decisions relating to the procurement of insurance cover. The risk management process also supports 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 risk management process, including the individual risk registers are subject to periodic review though the use of Internal Standards. The company is currently certificated to ISO's 14001; 55001 and OHSAS 18001. The primary responsibility is to provide independent assurance that the controls put in place by management to mitigate risks are working effectively.

Assurance is provided through the management reporting processes and reports to the AGS Airports Limited Executive Committee.

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

Safety risks
Health and safety is a core value of the business and the Company actively promotes the role of safety leadership in creating a safety culture that is intolerant of accidents and incidents.

The Company's Safety Management System includes risk assessment processes 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 management processes to ensure property and equipment remains safe.
Governance, led by the Managing Responsibly Governance Group (MRGG), and assurance processes are used to ensure the aforementioned remain effective and to encourage continuous improvement.

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

Regulatory environment, legal and other reputational risks
Civil Aviation Authority ('CAA') regulation
The Company's operations are currently 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. The airport is represented by dedicated AGS Airports Group staff that ensures full compliance with regulatory requirements, establish a sound relationship with the regulator and advise the Executive Committee and Board on regulatory matters.

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

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

Strategic report *continued*
Internal controls and risk management *continued*

Commercial and financial risks

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 the airport. Where possible the Company seeks to anticipate the effects of these events on its operations and also maintains contingency plans to minimise disruption wherever possible.

Changes in demand
The risk of unanticipated long-term changes in passenger demand for air travel could lead to a shortfall in revenue and 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 Company is recognised. The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The company could also be exposed in the short-term to the effect of industrial action involving other key stakeholders in the aviation sector such as airlines, air traffic controllers, baggage handlers and Border Force.

Treasury

The Company's financial risk management objectives are aligned with its ultimate parent company, Airport Holdings Limited, which is the parent undertaking that consolidates these financial statements. AGS Airports Limited (the 'AGS Group') is the entity where external funds are borrowed and lent on to the Company and the level at which financial risks for the Company are managed. The company's treasury policies are in compliance with the wider AGS Group and are set out below.

The Board approves prudent treasury policies and delegates certain responsibilities including changes to treasury policies, the approval of funding and the implementation of funding and risk strategy to the AGS Group Finance Team. Senior management 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 AGS Airports Holdings Group's business operations and funding. To achieve this, the AGS Airports Holdings Group enters into interest rate swaps, to protect against interest rate risks.

Strategic report *continued*
Internal controls and risk management *continued*

Treasury *continued*

The primary treasury related financial risks faced by the AGS Airports Group are:

(a) Interest rates
The AGS Group maintains a mix of fixed and floating rate debt. The risk is managed through use of interest rate hedging instruments.

(b) Funding and liquidity
The AGS Group is financed through bank facilities totalling £617 million. The AGS Airports Group is cash positive after capital expenditure and interest on external debt. As at 31 December 2015, cash and cash equivalents were £23 million (2014: £38 million) and undrawn headroom under bank credit facilities was £116 million (2014: £145 million).

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

(c) Counterparty credit
The AGS Group 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 AGS 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-term and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with short-term credit ratings lower than A-2/F1.

On behalf of the Board

David Lees
Director

31 March 2016

Company registration number: 02431858

Director's report

The Directors present their Annual report and the audited financial statements for Southampton International Airport Limited for the year ended 31 December 2015.

Principal activities
The Company is the owner and operator of Southampton airport and until 17 December 2014 formed part of the Heathrow Airport Holdings Limited group (the 'Heathrow Airport Holdings Group'). On 18 December 2014, the company's parent undertaking Airport Holdings NDH1 Limited, was acquired by AGS Airports Limited. Airport Holdings NDH1 Limited (the 'group'), 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 £9,436k (2014: £28,603k loss). No dividends were proposed or paid during the year (2014: £nil). The statutory results are set out on page 14.

Directors
The Directors who served during the year and to the date of this report, are as follows:

Richard Abel
Ignacio Aitor Garcia Bilbao
John Bruen
David Lees
Fidel Lopez Soria

Employment policies
The Company has defined a set of guiding principles to ensure fair recruitment and selection. The Company continues to aim to recruit, retain and develop high calibre people and has talent and succession management programmes for managerial roles.

The Company is committed to giving full and fair consideration to applicants for employment. Every applicant or employee will be treated equally whatever their race, colour, nationality, ethnic or national origin, sex, marital status, sexual orientation, religious belief, disability, age or community background. The Company actively encourages a diverse range of applicants and commits to fair treatment of all applicants. The Company's investment in learning and development is guided by senior line managers who ensure that the Company provides the learning opportunities to support the competencies that are seen as key to the Company's success.

Disabled persons have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. The Company has further procedures to ensure that disabled colleagues are fairly treated and that their training and career development needs are carefully managed. Where employees have become disabled during the course of employment, the Company endeavours to ensure continuing employment through the arrangement of appropriate training.

Employee involvement and consultation is managed in a number of ways including employee surveys, team updates, briefings, road shows and an intranet, while collective consultation takes place with the unions such as Unite and Prospect for those employee groups where unions are recognised. The Company also operates frameworks for consultation and is committed to managing people fairly through change.

Together these arrangements aim to provide a common awareness amongst employees of the financial and economic factors affecting the performance of their business. Bonuses paid to employees reflect the financial performance of the business. In addition, some senior management participate in a long-term incentive plan which also rewards based on group performance.

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 10 days' purchases outstanding at 31 December 2015 (2014: 13 days) based on the average daily amount invoiced by suppliers during the year.

Director's report *continued*

Going concern
The Company finances its activities through funds generated from operations and has access to inter group funding from its parent companies.

The Company's trading and cash flow projections identify that the business will be cash generative through the period ended 31 March 2017. The bank borrowings of the AGS Airports Holdings Limited group are secured over the assets. The directors having considered and made appropriate enquiries of management as to the assumptions underlying the projections have a reasonable expectation that the company and Group will continue in operational existence for the foreseeable future. Accordingly the going concern basis continues to be adopted in the preparation of the financial statements.

Political donations
The rules surrounding what may be classified as a political donation under the Political Parties, Elections and Referendums Act 2000 and Part 14 of the Companies Act 2006 are complex. It is against the Company's policy to make political donations.

Internal controls and risk management
The Company actively manages identified corporate risks and has in place a system of internal controls designed to mitigate these risks. Details of the Company's internal controls and risk management policies can be found on pages 7 to 10 in the Internal controls and risk management section of the Strategic report.

Financial risk management objectives and policies
The Company's financial risk management objectives and policies, along with the Company's exposure to risk has been disclosed in the Internal controls and risk management section of the Strategic report.

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

Auditor
Pursuant to the provisions of section 485 of the Companies Act 2006, a resolution relating to the reappointment of the auditor Deloitte LLP will be proposed within the period set out in section 485, or Deloitte LLP will be re-appointed following the period set out in section 485 where no such resolution is proposed, in accordance with section 487.

Statement of disclosure of information to the Auditor
Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

On behalf of the Board

David Lees
Director

31 March 2016

Company registration number: 02431858

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report including 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 Financial Reporting Standard 101 Reduced Disclosure Framework. 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 judgments and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for 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.

Independent auditor's report to the members of Southampton International Airport Limited

We have audited the financial statements of Southampton International Airport Limited for the year ended 31 December 2015 which comprise of the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Accounting policies, the Critical accounting judgements and key sources of estimation uncertainty, and the related notes 1 to 21. 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), including FRS 101 "Reduced Disclosure Framework".

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 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 Strategic Report and 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.

David Sweeney, C.A. (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Glasgow, UK

31 March 2016

Southampton International Airport Limited

Profit and loss account for the year ended 31 December 2015

		Year ended 31 December 2015			Year ended 31 December 2014[1]		
	Note	**Before certain re-measurements £000**	**Certain re-measurements £000**	**Total £000**	Before certain re-measurements £000	Certain re-measurements £000	Total £000
Turnover	*1*	27,565	-	27,565	27,424	-	27,424
Operating costs	*2*	(22,475)	-	(22,475)	(57,213)	-	(57,213)
Fair value gain on investment properties	*7*	-	3,850	3,850	-	1,985	1,985
Operating profit/(loss)		5,090	3,850	8,940	(29,789)	1,985	(27,804)
Analysed as:							
Operating profit/(loss) before non-recurring items		5,090	3,850	8,940	3,555	1,985	5,540
Non-recurring items	*3*	-	-	-	(33,344)	-	(33,344)
Financing							
Interest receivable and similar income	*4*	2,103	-	2,103	749	-	749
Interest payable and similar charges	*4*	(1,217)	-	(1,217)	(112)	-	(112)
Profit/(loss) on ordinary activities before tax		5,976	3,850	9,826	(29,152)	1,985	(27,167)
Taxation credit/(charge)	*5*	235	(625)	(390)	(1,039)	(397)	(1,436)
Profit/(loss) for the year		6,211	3,225	9,436	(30,191)	1,588	(28,603)

[1] 2014 restated for the transition to FRS 101. For more information see Note 21

Statement of comprehensive income for the year ended 31 December 2015

	Note	Year ended 31 December 2015 £000	Year ended 31 December 2014[1] £000
Profit/(loss) for the year	*17*	**9,436**	(28,603)
Other comprehensive income:			
Pension scheme acquired	*18*	**-**	947
Return on plan assets excluding interest income	*18*	**13**	331
Actuarial movements on defined benefit pension	*18*	**136**	(60)
Deferred tax on defined benefit pensions	*12*	**(2)**	(243)
Other comprehensive income for the year net of tax		**147**	975
Total comprehensive income for the year		**9,583**	(27,628)

[1] 2014 restated for the transition to FRS 101. For more information see Note 21

Statement of financial position as at 31 December 2015

	Note	31 December 2015 £000	31 December 2014[1] £000
Assets			
Fixed assets			
Property, plant and equipment	*6*	**30,881**	30,081
Investment properties	*7*	**52,390**	48,540
Pension asset	*18*	**1,353**	1,182
		84,624	**79,803**
Current assets			
Stocks	*8*	**185**	159
Debtors – due within one year	*9*	**29,649**	22,815
Cash in bank and in hand	*10*	**5**	7
		29,839	**22,981**
Total assets		**114,463**	**102,784**
Liabilities			
Creditors: Amounts falling due after more than one year			
Borrowings	*11*	**(7,762)**	(7,254)
Deferred tax liabilities	*12*	**(11,885)**	(12,548)
		(19,647)	**(19,802)**
Creditors: Amounts falling due within one year			
Borrowings	*11*	**(1,155)**	(41)
Provisions	*13*	**-**	(18)
Trade and other payables	*14*	**(6,251)**	(5,096)
		(7,406)	**(5,155)**
Total liabilities		**(27,053)**	**(24,957)**
Net assets		**87,410**	**77,827**
Capital and reserves			
Called up share capital	*15*	**40,000**	40,000
Revaluation reserve	*16*	**27,909**	27,909
Profit and loss account	*17*	**19,501**	9,918
Total shareholders' funds		**87,410**	**77,827**

[1] 2014 restated for the transition to FRS 101. For more information see Note 21

The financial statements of Southampton International Airport Limited (Company registration number: 02431858) were approved by the Board of Directors and authorised for issue on 31 March 2016. They were signed on its behalf by:

David Lees
Director
31 March 2016

Southampton International Airport Limited

Statement of changes in equity as at 31 December 2015

	Note	Share capital £000's	Revaluation reserve £000's	Profit and loss account £000's	Total £000's
		Attributable to the owners of the Company			
Balance at 1 January 2014 as previously stated		40,000	27,909	48,649	116,558
Effect of restatement due to change in accounting framework to FRS 101	*21*	-	-	(11,103)	(11,103)
As restated		**40,000**	**27,909**	**37,546**	**105,455**
Comprehensive income:					
Profit for the year	*17*	-	-	(28,603)	(28,603)
Other comprehensive income	*18*	-	-	975	975
Total comprehensive income		-	-	(27,628)	(27,628)
1 January 2015		**40,000**	**27,909**	**9,918**	**77,827**
Comprehensive income:					
Profit for the year	*17*			9,436	9,436
Other comprehensive income	*18*			147	147
Total comprehensive income		-	-	9,583	9,583
31 December 2015		**40,000**	**27,909**	**19,501**	**87,410**

[1] The revaluation reserve relates to the historic revaluation of investment properties. Current revaluations of investment properties are included in the profit and loss account.

Southampton International Airport Limited

Accounting policies for the year ended 31 December 2015

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

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

Basis of accounting
Southampton International Airport Limited is a Company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic review on pages 2 to 3.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. The prior year financial statements were re-stated for adjustments on adoption of FRS 101 in the current year. For more information see note 21.

The financial statements have been prepared on the historical cost basis, except for the revaluation of investment properties and financial instruments Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of AGS Holdings Limited. Details of the parent in whose consolidated financial statements the Company is included are shown in note 20 to the financial statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash-flow statement, standards not yet effective, impairment of assets, related party transactions and the requirement set out in IAS 1.38 to present comparative information in respect of property plant and equipment and investment properties.

Primary financial statements format
A columnar approach has been adopted in the profit and loss account and the impact of three principal groups of items is shown in a separate column ('certain re-measurements'). This allows the presentation of the performance of the business before these specific fair value gains and losses. These items are:
i fair value gains and losses on investment property revaluations and disposals;
ii the associated tax impacts of the items in (i) above.

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 financial risks for the Company are managed at AGS Airports Group level.

Consequently the Directors have reviewed the cash flow projections of the AGS Airports Group taking into account:
- the forecast turnover and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall AGS Airports Group liquidity position, including the projected upstream of cash remaining committed and uncommitted facilities available to it, its scheduled debt maturities and its forecast financial ratios and ability to access the debt markets.

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

Accounting policies for the year ended 31 December 2015 *continued*

Turnover
Turnover is measured at the fair value of the consideration received or receivable and 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.
- Aircraft departure charges levied according to weight of departing aircraft.
- Aircraft landing charges levied according to noise, emissions and weight recognised on landing.
- Aircraft parking charges based on a combination of weight and time parked as provided.
- Other charges levied for passenger and baggage operation when these services are rendered.

Retail
- Concession fees from retail and commercial concessionaires at or around airports are based upon turnover certificates supplied by concessionaires and are recognised in the period to which they relate.
- 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 rentals, recognised on a straight-line basis over the term of the rental period.
- Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale.
- Usage charges made for operational systems (e.g. check-in desks), recognised as each service is provided.
- Other invoiced sales, recognised on the performance of the service.

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

Grants and contributions
On occasion, the Company may receive grants to provide financial incentives to improve airport infrastructure considered to be in the best interest of the public. Grants received are treated as a reduction in the cost of the related fixed assets.

Non-recurring items
On the face of the profit and loss account, the Company presents non-recurring items separately. Non-recurring items are material items of income or expense that, because of their size or incidence, merit separate presentation to allow an understanding of the Company's financial performance.

Such events may include gains or losses on the disposal of businesses or assets that do not qualify as discontinued operations, 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.

In the year ended 31 December 2014, Provisions to recognise the Company's liability to fund the LHR Airports Limited defined benefit pension scheme deficit and Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities under the Shared Services Agreement are treated as an non-recurring item. Refer to the Shared Services Agreement accounting policy.

In the year ended 31 December 2014, an impairment was recorded against the airport assets due to economic obsolescence.

Additional details of non-recurring items are provided as and when required as set out in note 3.

Operating profit
Operating profit is stated after charging restructuring costs and fair value gain on investment properties but before financing.

Interest
Interest receivable is recognised when it is probable that the economic benefits will flow to the Company and the amount of turnover can be measured reliably. Interest receivable is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

Interest charges directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the asset is complete and available for use. Such costs are capitalised whilst projects are in progress.

Accounting policies for the year ended 31 December 2015 *continued*

Interest *continued*
Where assets in the course of construction are financed by specific facilities, the interest rate relating to those specific borrowing facilities is used to calculate the amount to capitalise; otherwise an interest rate based on the weighted average cost of debt is used. Capitalisation of interest ceases once the asset is complete and available for use. Interest is then charged to the profit and loss account as a depreciation expense over the life of the relevant asset.

All other interest costs are recognised in the profit and loss account in the year in which they are incurred.

Property, plant and equipment
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 and the asset is available for use. Where appropriate, cost includes finance costs capitalised, own labour costs of construction-related project management and directly attributable overheads. Projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Company. The Company reviews these projects on a regular basis 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.

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
Leasehold improvements	Lower of useful economic life or lease period

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

Impairment of assets
The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's fair value less costs of disposal 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 a cash-generating unit exceeds its recoverable amount, the cash-generating unit is considered impaired and is written down to its recoverable amount.

Impairment of assets continued
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.

Investment properties
Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at fair value at the reporting date, as determined at the interim and full-year reporting dates by the Directors and by external valuers every year. Gains or losses arising from changes in the fair value of investment property are recognised in the profit and loss account in the period in which they arise.

Gains or losses on disposal of an investment property are recognised in the profit and loss account on the unconditional completion of the sale.

Capitalisation of interest
Interest costs resulting from financing tangible fixed assets that are in the course of construction is capitalised whilst projects are in progress. Where assets in the course of construction are financed by specific borrowing facilities the interest rate relating to those specific borrowing facilities is used to calculate the amount to capitalise, otherwise an interest rate based on the weighted average cost of debt is used. Capitalisation of interest ceases once the asset is complete and available for use. Interest is then charged to the profit and loss account as a depreciation expense over the life of the relevant asset.

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
Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

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 amount of the leased asset and recognised over the lease term on the same basis as rental income.

Stocks
Stocks are stated at the lower of cost or net realisable value.

Cash in Bank and on hand
For the purposes of the Statement of cash flows, cash and cash equivalents comprise cash at bank, cash in hand, restricted cash and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments and bank overdrafts.

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.

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

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings with a maturity date are subsequently stated at amortised cost unless part of a fair value hedge relationship. 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. Borrowings being novated or cancelled and re-issued, with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the profit and loss account.

Financial assets
All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available for sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities and equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Employee costs

Shared Services Agreement ('SSA').
Prior to 18 December 2014, LHR Airports Limited employed all staff that provide services to the Company. LHR Airports Limited was the sponsor of the defined benefit pension schemes and also acted as the provider of corporate and administrative services to the Company.

Operational staff
Employment costs include wages and salaries, pension costs, medical costs and redundancy payments, as well as any other of its associated expenses incurred by the employees of LHR Airports in providing services to the Company. From 18 December 2014, all employees were employed directly by the company.

Corporate and centralised services

Prior to 18 December 2014
LHR Airports Limited also provided centralised airport support including IT applications, general business services, procurement and financial accounting. These services were 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 were recharged to the company.

Post 18 December 2014 to 18 December 2015
LHR Airports limited continued to provide the services under the terms of a Transitional Services Agreement entered into by LHR Limited and AGS Airports Limited.

Post 18 December 2015
New internal service was implemented and the Transitional Services Agreement was finalised.

Accounting policies for the year ended 31 December 2015 *continued*

Pension costs

Prior to 18 December 2014
Under the SSA the current period service cost for the LHR Airports Limited pension schemes were recharged to the Company on the basis of their pensionable salaries. This charge was included within Operating costs – ordinary. Cash contributions were made directly by the company to the LHR Airports Limited pension schemes on behalf of LHR Airports Limited

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

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

Post 18 December 2014
Subsequent to the acquisition of the Airport Holdings NDH1 Limited Group by AGS Airports Limited, the members of that group no longer have a liability to the LHR Airports pension schemes. AGS Airports Limited has, following consultation with members, created its own defined benefit scheme which provides the same benefits as the LHR scheme.

The Company is a participating employer in the AGS Airports defined benefit pension scheme. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA which have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries operate and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company's financial statements. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Current and deferred income tax *continued*

Deferred income taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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.

Income tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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

Dividend distribution
A dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the shareholder's right to receive payment of the dividend is established. Interim dividends are recognised when paid.

Critical accounting judgements and key sources of estimation uncertainty

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 by CBRE Limited. The valuations were prepared in consideration of IFRS and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence relevant to each specific property or class of properties. 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 87% of the investment properties comprise airport car parks and airside assets that are considered less vulnerable to market volatility than the overall market.

Pensions

Certain assumptions have been adopted for factors that determine the valuation of the Company's liability for pension obligations at period end and charges to the profit and loss account. The factors have been determined in consultation with the Company's actuary, taking into account market and economic conditions. Changes in assumptions can vary from period to period as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Company's liability for pension obligations. The objective when setting pension scheme assumptions for future periods is to reflect the expected actual outcomes, other than the discount rate which must be set by reference to the yield on high quality corporate bonds with a term consistent with the obligations. The impact of the change in assumptions on the valuation of the net financial position for pension schemes is reflected in the non-recurring item-pension line in the profit and loss account. Further details are available in Notes 18.

Fair value measurements

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the board of directors of the Company twice a year to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in notes to the financial statements.

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. If there were significant changes in the expected useful lives of the assets management would realign the policies which would result in a different level of depreciation being charged to the profit and loss account.

Southampton International Airport Limited

Notes to the financial statements for the year ended 31 December 2015

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.

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Turnover	**27,565**	27,424
Other operating income		
Interest receivable and similar income (note 4)	**2,103**	749
Total revenue	**29,668**	28,173

2 Operating costs

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Operating costs (including non-recurring items) include the following:		
Employment costs[1]		
Wages and salaries	**6,478**	6,761
Social security	**571**	676
Pensions	**1,383**	1,435
Other staff related:		
Share of change in the Heathrow Airport Holdings Group pension deficit	**-**	1,844
Reorganisation costs	**173**	-
Other	**478**	336
Employment costs	**8,910**	11,052
Depreciation		
Depreciation of property, plant and equipment	**2,354**	3,604
Impairment	**-**	31,500
Other operating costs		
Maintenance expenditure	**1,718**	2,068
Utilities	**743**	711
Rents and rates	**1,338**	1,359
General expenses	**2,068**	1,873
Retail expenditure	**964**	959
Police	**15**	15
Aerodrome navigation service charges	**3,814**	3,765
Disposal of fixed assets	**31**	-
Intra-group charges/other	**1,037**	938
Own work capitalised	**(517)**	(631)
Total operating costs	**22,475**	57,213
Analysed as:		
Adjusted operating costs	**20,121**	20,265
Depreciation	**2,354**	3,604
Non-recurring costs[2]	**-**	33,344
Total operating costs	**22,475**	57,213

[1] Employment costs include recharges from Heathrow Airport Limited for employee services to the Group. Refer to the SSA in the Accounting policies.
[2] Non-recurring items included within operating costs are analysed in Note 3.

Notes to the financial statements *continued* for the year ended 31 December 2015

2 Operating costs *continued*

Cost items have also been presented below by their underlying nature.

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Employment costs	**8,910**	9,208
Maintenance expenditure	**1,718**	2,068
Utility costs	**743**	711
Rents and rates	**1,338**	1,359
General expenses	**6,417**	5,960
Retail expenditure	**964**	959
Disposal of fixed assets	**31**	-
Total adjusted operating costs	**20,121**	20,265
Depreciation and amortisation	**2,354**	3,604
Impairment (Note 3)	-	31,500
Non-recurring costs (Note 3)	-	1,844
Total operating costs	**22,475**	57,213

Auditor remuneration

Audit fees and non-audit fees for the current financial year were borne by AGS Airports Limited and recharged to the Company.

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Fees payable to the Company's auditor for the audit of the AGS Airport Holdings Limited group's annual accounts:		-
Audit of the Company's subsidiaries pursuant to legislation	**20**	31
	20	31
Non audit fees payable to the Company's auditor and their associates for other services to the Group		
Audit related assurance services	-	5
Other tax services	-	5
Other assurance services	-	7
Total non-audit fees	-	17
Total fees	**20**	48

Employee numbers

The average monthly number of employees (including executive directors) during the year was 190. This does not include headcount relating to central support functions for the Company which are rendered by AGS Airports Limited and charged as intra-group charges in accordance with the SSA.

Prior to 18 December 2014, the Company had no employees and employees engaged in the operations of Southampton airport were employed by LHR Airports Limited but the Company bore the cost of these employees. The average number of employees of LHR Airports Limited engaged in the operation of Southampton airport during the year ended 31 December 2014 was 181. This does not include headcount relating to central support functions for the Company which were rendered by LHR Airports Limited and charged as intra-group charges in accordance with the SSA.

Notes to the financial statements *continued* for the year ended 31 December 2015

2 Operating costs *continued*

Director's remuneration

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Director's and highest paid director's remuneration		
Aggregate emoluments	**188**	215
Value of company pension contributions to defined benefit scheme	**50**	48
	238	263

	Year ended 31 December 2015 Number	Year ended 31 December 2014 Number
Number of directors who:		
are members of a defined benefit pension scheme	**1**	1

The directors participate in various Long Term Incentive Performance Cash Plans operated by AGS Airports Limited and historically LHR Airports Limited.

The AGS Airports Limited plan was introduced in 2015, a cash amount is granted which could vest in 2018, contingent on achieving or surpassing EBITDA and other operational targets over a three year period.

In respect of the LHR Airports Limited plan, a cash amount is granted which could vest in future periods contingent on achieving or surpassing EBITDA, Return on Equity and other operational targets over a three year period. The directors' remuneration includes £14k paid in 2015 (2014: £14k paid in 2014 in respect of the 2011 LTIP plan) in respect of the 2012 LTIP Plan after certain targets were met over the three year period from 2011 to 2014.

3 Non-recurring items

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Pension charge[1]	**-**	(1,844)
Impairment[2]	**-**	(31,500)
	-	(33,344)

[1] During 2014 there was a net non-recurring pension charge of £1,844K. This includes the Company's share of the movement in the LHR Airports Limited defined benefit pension scheme, the Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical pension related liabilities.

[2] During 2014, following an internal management review, an impairment of £32 million was recorded against the airport assets due to economic obsolescence.

Notes to the financial statements ***continued*** for the year ended 31 December 2015

4 Interest

	Note	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Interest receivable and similar income			
Prior pension scheme		-	196
New AGS pension scheme		**713**	22
Interest receivable from group undertakings[1]		**1,390**	531
Total interest receivable and similar income		**2,103**	749
Interest payable and similar charges			
Prior pension scheme (to split out net of cost and income)		-	(17)
New AGS pension scheme		**(651)**	(22)
Interest payable to group undertakings[2]		**(565)**	(105)
Interest capitalised[3]		-	32
Other		**(1)**	-
Total interest payable and similar charges		**(1,217)**	(112)

[1] These amounts relate to interest accrued on balances owed by Airport Holdings NDH1 Limited and AGS Airports Limited (Note 11).
[2] These amounts relate to interest accrued on balances owed to Airport Holdings NDH1 Limited and AGS Airports Limited (Note 11).
[3] Interest is capitalised at a rate of 2.83% in 2015 (7.07% in 2014. Capitalised interest in 2015 was £112,000 (2014: £103,000) and from 2015 is accounted for within AGS Airports Limited.

5 Taxation

	Year ended 31 December 2015 £'000	Year ended 31 December 2014[1] £'000
Current tax		
Group tax relief payable	**1,201**	1,154
Adjustments in respect of prior years	**(146)**	7
Total current tax charge	**1,055**	1,161
Deferred tax		
Current year	**205**	296
Adjustments in respect of prior years	**426**	(21)
Change in tax rate impact on deferred tax assets and liabilities	**(1,296)**	-
Total deferred tax (credit)/charge	**(665)**	275
Taxation charge for the year	**390**	1,436

[1] 2014 restated for the transition to FRS 101. For more information see Note 21.

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Profit/(loss) on ordinary activities before tax	**9,826**	(27,167)
Reconciliation of the tax (credit)/charge		
Tax calculated at the UK statutory rate of 20.25% (2014: 21.5%)	**1,990**	(5,839)
Adjustments in respect of current income tax of previous years	**(146)**	7
Adjustments in respect of deferred tax of previous years	**426**	(21)
Change in tax rate – re-measurement	**20**	(49)
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	**(1,316)**	-
Non-deductible expenses	**(584)**	7,338
Taxation charge for the year	**390**	1,436

Notes to the financial statements *continued* for the year ended 31 December 2015

6 Property, plant and equipment

	Terminal complexes £000	Airfields £000	Plant and equipment £000	Other land and buildings[1] £000	Assets in the course of construction £000	Total £000
Cost						
1 January 2015	**30,281**	**38,390**	**16,659**	**8,091**	**4,169**	**97,590**
Additions	-	-	-	-	3,097	3,097
Transfers to completed assets	517	1,483	1,930	-	(3,930)	-
Interest capitalised	-	-	-	-	128	128
Disposals	-	-	(109)	-	-	(109)
Reclassifications	-	-	-	-	-	-
31 December 2015	**30,798**	**39,873**	**18,480**	**8,091**	**3,464**	**100,706**
Depreciation						
1 January 2015	**(24,680)**	**(22,780)**	**(13,518)**	**(6,529)**	**-**	**(67,509)**
Charge	(801)	(315)	(1,079)	(159)	-	(2,354)
Disposals	-	-	38	-	-	38
Reclassifications	(11)	26	(17)	2	-	-
31 December 2015	**(25,492)**	**(23,069)**	**(14,578)**	**(6,686)**	**-**	**(69,825)**
Net book value 31 December 2015	**5,306**	**16,804**	**3,902**	**1,405**	**3,464**	**30,881**
Net book value 31 December 2014	5,601	15,610	3,139	1,562	4,169	30,081

[1] 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 developments under the Company's capital investment programme. Projects in progress at 31 December 2015 at Southampton airport include the replacement of the fire training rig, the demolition of old offices at the back of the departure lounge to create additional space and the replacement of the runway drainage which is end of life.

Borrowing costs capitalised

Included in the net book value of assets after depreciation are interest costs of £1,006k (2014: £878k). £128,000 (2014: £32,000) has been capitalised in the year at an average capitalisation rate of 2.83% (2014: 7.07%) based on a weighted average cost of borrowings. From 2015 the capitalised interest is accounted for within AGS Airports Limited.

7 Investment properties

	Airport investment properties £000
Fair value	
1 January 2015	**48,540**
Valuation gain	3,850
31 December 2015	**52,390**

Investment properties were valued at fair value at 31 December 2015 by CBRE Limited, Chartered Surveyors.

Details of valuations performed are provided below:

	31 December 2015 **£000**	31 December 2014 £000
CBRE Limited	**52,390**	48,540

Investment properties, which are all freehold, were valued to fair value at 31 December 2015 by CBRE Limited, Chartered Surveyors. All valuations were prepared in consideration of IFRS and in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence relevant to each specific property or class of properties. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence relevant to each specific property or class of properties. There were no restrictions on the realisability or remittance of income or proceeds on disposal. The fair value measurement hierarchy used in calculating fair value has been classified as Level 3. The higher the discount rate, terminal yield and expected vacancy rate, the lower the fair value. The higher the current and potential future income or rental growth rate, the higher the fair value.

Notes to the financial statements ***continued*** for the year ended 31 December 2015

7 Investment properties *continued*

The Company has historically had a low level of void properties.

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during their period of occupation.

8 Stocks

	31 December 2015 £000	31 December 2014 £000
Consumables	**185**	159

The total amount of stock consumed in the year relating to continuing operations was £66k (2014: £64k).

There is no material difference between the statement of financial position value of inventories and their replacement cost.

9 Debtors

	31 December 2015 £000	31 December 2014 £000
Due within one year		
Trade receivables	**3,127**	2,644
Less: allowance for doubtful debts	**(66)**	(9)
Trade receivables – net	**3,061**	2,635
Amounts owed by group undertakings – interest bearing[1]	**20,099**	19,123
Interest receivable from group undertakings	**2,080**	690
Trade receivables from group undertakings	**4,074**	-
Prepayments	**252**	104
Other receivables	**83**	263
	29,649	22,815

1 Amounts owed by group undertakings - interest bearing mainly relate to cash sweeps transferred to Airport Holdings NDH1 Limited and AGS Airports Limited. Cash is swept between the companies on a regular basis. As at 31 December 2015, the balance accrues interest at a rate of 7.00% per annum (2014: 3.16%).

The fair value of trade and other receivables is not materially different from the carrying value.

Unless otherwise stated, trade and other receivables do not contain impaired assets.

Trade receivables are non-interest bearing and are generally on 14 day terms. No collateral is held as security.

10 Cash at bank and in hand

	31 December 2015 £000	31 December 2014 £000
Cash at bank	**5**	7

Cash at bank earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk.

Notes to the financial statements ***continued*** for the year ended 31 December 2015

11 Borrowings

	31 December 2015 £000	31 December 2014 £000
Current		
Interest payable to group undertakings	**1,155**	41
Non-current		
Unsecured		
Amounts owed to group undertakings – interest bearing	**7,762**	7,254

Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. For unlisted borrowings, the Company establishes fair values by using valuation techniques such as discounted cash flow analysis. The fair values of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value.

12 Deferred tax liability

The net movement on the deferred tax liability is as follows:

	2015 £'000	2014[1] £'000
1 January	**12,548**	12,030
(Credited)/Charged to profit and loss account	**(665)**	275
Tax charged to equity		
Charged to equity – defined benefit pensions	**2**	243
31 December	**11,885**	12,548

[1] 2014 restated for the transition to FRS 101. For more information see Note 21.

The amounts of deferred tax provided are detailed below:

Deferred tax liabilities

	Revaluation of investment property to fair value £'000	**IBAs £'000**	**Other £'000**	**Total £'000**
1 January 2014	**4,327**	**6,749**	**954**	**12,030**
Charged/(credited) to profit and loss account	397	(349)	227	275
Charged to equity	-	-	243	243
31 December 2014	4,724	6,400	1,424	12,548
1 January 2015	**4,724**	**6,400**	**1,424**	**12,548**
Charged/(credited) to profit and loss account	153	(352)	(466)	(665)
Charged to equity	-	-	2	2
31 December 2015	**4,877**	**6,048**	**960**	**11,885**

Deferred income tax charged to equity during the year is as follows:

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Defined benefit pension scheme	**2**	243

The Finance Act 2015 set the UK corporation tax main rate at 20% for the Financial Year 2016. At the Summer Budget 2015, the government announced a reduction in the rate from 20% to 19% for the year beginning 1 April 2017, with a further reduction from 19% to 18% for the year beginning 1 April 2020. As a result, the Company's deferred tax balances have been provided at 18%.

Notes to the financial statements *continued* for the year ended 31 December 2015

13 Provisions

	Other £000	Total £000
Non-current	-	-
Current	18	18
31 December 2014	**18**	**18**
(Released) to profit and loss	(18)	(18)
31 December 2015	-	-

14 Creditors due within one year

	31 December 2015 £'000	31 December 2014 £'000
Current		
Accruals and Deferred income	**3,315**	3,091
Trade payables	**407**	597
Other tax and social security	**162**	162
Other payables	**267**	95
Capital payables	**399**	505
Group tax relief payable	**1,701**	646
Amounts owed to group undertakings – interest free[1]	-	-
	6,251	5,096

[1] Amounts owed to group undertakings - interest free largely related to external payments made by LHR Airports Limited under the SSA on behalf of the Company which will be settled in due course. There are no such amounts outstanding at 31 December 2014.

Trade payables are non-interest bearing and are generally on 30-day terms.

15 Share capital

	2015 £'000	**2014 £'000**
Allocated. called up and fully paid 40,000,002 ordinary shares of £1 each	**40,000**	**40,000**

16 Revaluation reserve

	2015 £'000	**2014 £'000**
31 December	**27,909**	**27,909**

The revaluation reserve relates to the historic revaluation of investment properties and is non-distributable to the shareholders. Current revaluations of investment properties are included in the profit and loss account.

Notes to the financial statements *continued* for the year ended 31 December 2015

17 Profit and loss account

	2015 £'000	2014 £'000
1 January	9,918	37,546
Profit/(loss) for the year	9,436	(28,603)
Pension scheme acquired	-	947
Return on plan assets excluding interest income	13	331
Actuarial movements on defined benefit pension	136	(60)
Deferred tax on pension scheme	(2)	(243)
31 December	**19,501**	**9,918**

18 Employee benefits

Pension plans

Defined benefit scheme

The Company is a participating employer in the AGS Airports Limited defined benefit pension scheme. The AGS Airports Pension Scheme was created on 18 December 2014 following the acquisition by the new owners.

The Group's defined benefit pension fund is a self-administered defined benefit scheme (the "AGS Airports Pension Scheme" or the "Scheme") and is closed to new employees. The Scheme is based on a final salary arrangement. As required by UK pension law, a Pension Trustee's Board has been established which together with the Group, is responsible for governance of the Scheme. The Trustee Board is comprised of Company and employee nominated Trustees. Employee Trustees will be nominated and elected by the employees who are members of the Scheme.

In the initial period since the Scheme came into existence on 18 December 2014, the employer's contributions have been calculated based on initial advice received from the Scheme's actuaries, KPMG LLP, on the amount of the bulk transfer of assets and liabilities transferred into the Scheme from the former owners Scheme (BAA Pension Scheme) and assumptions determined by the Trustee and agreed by the Group.

The Scheme's Trustees in conjunction with the Trustees of the BAA Pension scheme finalised the bulk transfer values in respect of the pension entitlements of those employees who transferred over to the new Group on July 2015. The pension fund will be subject to triennial valuations and the defined obligation or surplus calculated twice a year by the Scheme's actuaries.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	2015 £000	2014 £000
Fair value of plan assets	19,804	18,027
Defined benefit obligation	(18,451)	(16,845)
Net asset for defined benefit obligations (see following table)	1,353	1,182

Notes to the financial statements *continued* for the year ended 31 December 2015

18 Employee Benefits *continued*

Movements in net defined benefit asset

	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset	
	31 December 2015 £000	31 December 2014 £000	**31 December 2015 £000**	31 December 2014 £000	**31 December 2015 £000**	31 December 2014 £000
Balance at 1 January	**(16,845)**	-	**18,027**	-	**1,182**	-
Current service cost	**(1,119)**	(37)	**-**	-	**(1,119)**	(37)
Interest (cost)/income	**(651)**	(22)	**713**	22	**62**	-
Included in OCI*						
Actuarial loss (gain)	**136**	(60)	**-**	-	**136**	(60)
Return on plan assets excluding interest income	**-**	-	**13**	331	**13**	331
Other						
Contributions paid by scheme participants	**(139)**	-	**139**	-	**-**	-
Employer contributions	**-**	-	**1,079**	-	**1,079**	-
Benefits paid out	**167**	-	**(167)**	-	**-**	-
Pension scheme assumed on acquisition	**-**	(16,726)	**-**	17,674	**-**	948
Balance at 31 December	**(18,451)**	(16,845)	**19,804**	18,027	**1,353**	1,182

Fair value of plan assets

	31 December 2015 £000	31 December 2014 £000
Equity	5,356	-
Property	983	-
Bonds	9,787	-
Cash	108	18,027
Diversified Growth Funds	3,570	-
Total	**19,804**	18,027

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

	31 December 2015 %	**31 December 2014 %**
Discount rate at 31 December	3.85	3.70
Future salary increases	3.35	3.30
RPI Inflation	3.35	3.30
Pension increases in payment	3.15	3.15

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 60-year old to live for a number of years as follows:

Current pensioner aged 60: 27 years (male), 28 years (female).

Future retiree upon reaching 60: 29 years (male), 30 years (female).

The accounting standard requires that the discount rate used to discount the liability determined by reference to market yields at the reporting date on high quality corporate bond investments. The currency and terms of these should be consistent with the currency and estimated term of the post-employment obligations. The discount rate has been based on the yield on AA rated corporate bonds of a term similar to the liabilities.

Notes to the financial statements *continued* for the year ended 31 December 2015

18 Employee Benefits *continued*

The expected rate of inflation is an important assumption for the salary growth and pension increase assumptions. A rate of inflation is "implied" by the difference between the yields on fixed and index-linked government bonds.

As required under the accounting standard, interest income on the plan assets is calculated by multiplying the fair value of the plan assets by the discount rate as discussed above

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions:

Impact on overall Liabilities	Change in assumption	**31 December 2015** %	**31 December 2014** %
Discount rate	*Decrease by 0.1%*	2.4%	2.6%
Rate of inflation	*Increase by 0.1%*	2.4%	2.5%
Life expectancy	*Increase by 1 year*	2.1%	1.9%

The sensitivities as at 31 December 14 were based on the average duration of the benefit obligation determined at the date of the initial advice on the actuarial assumptions at the date of acquisition, 18th December 2014 and applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Funding

The defined benefit plan is fully funded by the Group's subsidiaries. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. The funding of the plan is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Employees contribute to the plan based on a percentage of salary

The Company expects to pay £0.9 million in contributions to its defined benefit plans in 2016 (2015: £1,079k). The weighted average duration of the defined benefit obligation at the end of the reporting period is 25 years (2014: 25 years).

Defined contribution plans

The Company operates a defined contribution pension plan for all employees who joined the Company (under the former ownership) after 15 June 2008.The total cost of defined contribution pension arrangements are fully expensed as employment costs

The total expense relating to these plans in the year was £263k (2014: £236k)

Notes to the financial statements ***continued*** for the year ended 31 December 2015

19 Commitments

The Company, together with AGS Airports Limited and each of its fellow subsidiaries (other than BAA Lynton Limited), together, have granted security over their assets to secure their obligations to the lenders under the Senior Facilities Agreement dated 15 October 2014.

Non-cancellable operating lease commitments – Company as a lessee

Total future minimum rentals payable as at the year end are as follows:

	31 December 2015		31 December 2014	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
Within one year	**-**	**2**	-	2
Total	**-**	**2**	-	2

The Company leases lighting under non-cancellable operating leases.

Non-cancellable operating lease commitments – Company as a lessor
Total future minimum rentals receivable as at the year end are as follows:

	31 December 2015 Land and buildings £'000	31 December 2014 Land and buildings £'000
Within one year	**830**	676
Within two to five years	**2,143**	2,019
After five years	**1,693**	1,970
Total	**4,666**	4,665

The Company uses a number of different leasing and contractual structures depending on the type and location of the investment property. Typically in multi-let offices and industrial premises a standard indefinite tenancy is used, which is terminable by the tenant on three months' notice at any time. However, it is common for the accommodation to remain let or be quickly re-let should it be vacated. For larger, standalone premises, e.g. cargo sheds, longer leases of multiples of three years are used.

Car rental facilities are operated under concession agreements subject to minimum guaranteed payments and the amounts are included above. Concession contracts on the public car parks have been replaced by operator management fee arrangements.

Company commitments for property, plant and equipment
Contracted capital expenditure commitments amount to £259k (2014: £1,339k).

20 Ultimate parent undertaking

The shares of the Company are held by Airport Holdings NDH1 Limited however the beneficial owner of the Company's shares is AGS Airports Holdings Limited, a company registered in England and Wales.

As described in the strategic report, the ownership of Airport Holdings NDH1 Limited changed on 18 December 2014.

The ultimate parent entity is AGS Holdings Limited. The shareholders of AGS Airports Holdings Limited are AGS Ventures Airports Limited (a subsidiary of Macquarie European Infrastructure Fund 4 LP) (50%) and Faero UK Holding Limited (an indirect subsidiary of Ferrovial, S.A., Spain) (50%).

The Company's results are included in the audited consolidated financial statements of AGS Airports Limited for the year ended 31 December 2015, which is the parent undertaking of the smallest group to consolidate these financial statements. AGS Airports Holdings Limited is the largest Group to consolidate these financial statements.

Copies of the financial statements of AGS Airports Holdings Limited may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

Notes to the financial statements *continued* for the year ended 31 December 2015

21 Explanation of transition to FRS 101

This is the first year that the Company has presented its financial statements under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under a previous GAAP (UK GAAP) were for the year ended 31 December 2014 and the date of transition to FRS 101 was therefore 1 January 2014.

The adjustments required to move from UK GAAP to FRS 101 were to recognise the fair value gain on investment properties within the profit and loss account (previously included within Reserves under UK GAAP), to recognise deferred tax on investment properties and IBA's (not required under UK GAAP) and to provide an accrual for holiday pay including recognising the deferred tax on this accrual (not required under UK GAAP).

Reconciliation of income statement for the year ended 31 December 2014

	£000
Total loss for the financial year under UK GAAP	**(30,533)**
Fair value gain on investment properties	1,985
Deferred tax on investment properties	(397)
Deferred tax on IBA's	349
Holiday pay accrual net of deferred tax	(7)
	1,930
Total loss for the financial year under FRS 101	**(28,603)**

Reconciliation of equity

	At 1 January 2014 £000	At 31 December 2014 £000
Equity reported under UK GAAP	**116,558**	**88,985**
Adjustments to equity on transition to FRS 101		
Deferred tax on investment properties	(4,327)	(4,724)
Deferred tax on IBA's	(6,749)	(6,400)
Holiday pay accrual net of deferred tax	(27)	(34)
Total	**(11,103)**	**(11,158)**
Equity reported under FRS 101	**105,455**	**77,827**

Reconciliation of total comprehensive income for the year ended 31 December 2014

	£000's
Total comprehensive income for the financial year under UK GAAP	**(27,573)**
Deferred tax on investment properties	(397)
Deferred tax on IBA's	349
Holiday pay accrual net of deferred tax	(7)
Total	**(55)**
Total comprehensive income for the financial year under FRS 101	**(27,628)**