Southampton International Airport Limited
Annual report and financial statements for the year ended 31 December 2014

Company registration number: 02431858

Southampton International Airport Limited

Contents

Southampton International Airport Limited

Officers and professional advisers

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John Bruen
David Lees
Fidel Lopez Soria

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Southampton International Airport Limited

Strategic report

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.

This strategic report is presented under three sections:

Management review – overview of the year ended 31 December 2014, along with the key factors likely to impact the Company in 2015.
Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2014 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 2015 are detailed below.

Passenger traffic trends

Passenger traffic for the year ended 31 December 2014 is analysed below:

	Year ended 31 December 2014	Year ended 31 December 2013	Change [1] %
Passengers by market served (millions) [2]			
UK	**0.78**	0.76	2.6
Europe	**1.05**	0.96	9.4
Total passengers	**1.83**	1.72	6.4

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

In the year ended 31 December 2014, passenger traffic increased 6.4% to 1.83 million (2013: 1.72 million). The performance reflects 2.6 % growth in domestic traffic and 9.4 % growth in European traffic.

Domestic destinations generating the most growth included Manchester (31% growth in passenger traffic), Belfast City (25%) and Newcastle (10%). Traffic to Leeds decreased 41% following the cessation of the Leeds route in early 2014 (subsequently restarted and operated as a shuttle service to Leeds and Aberdeen in late 2014). Small reductions were seen on Glasgow (-5%) and Edinburgh (-2%).
In Europe, there was significant growth on passenger traffic to Dublin (32%), Guernsey (32%), Amsterdam (21%) and Jersey (6.5%).

In November 2014 Flybe announced that a range of routes would be operated from Bournemouth Airport commencing in March 2015. Six of these routes (Dublin, Manchester, Glasgow, Paris, Amsterdam and Jersey) also operate from Southampton.

Investment in airport facilities

For the year ended 31 December 2014, the Company capitalised costs of £3,656,000 (2013: £1,787,000).

Major projects included improvements to the main airport road signage, a mechanical lifting solution for out of gauge baggage to minimise manual handling, replacement of the runway approach lighting to the north, replacement of 2 airside operations vehicles and the departures lounge was extended by $80m^2$ to allow commercial retail opportunities to be realised without affecting passenger capacity. Design works were commenced on replacing the fire training rig and an initial stage payment was made for 3 landside buses.

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 81.2% (2013: 82.0%).

Southampton Airport participates in the Airport Council International's Airport Service Quality benchmarking survey which includes over 90 European airports and hundreds worldwide. Southampton airport achieved its highest ever Airport

Strategic report continued
Management Review continued
Service standards continued

Service Quality (ASQ) passenger satisfaction score in Quarter 4 of 2014 of 4.23 out of 5. The average for 2014 was a score of at 4.11 (2013: 4.14) out of 5.

Developments since beginning of 2015

In January 2015, Flybe ceased operations to Aberdeen and has commenced operating the six competitive routes referred to above from Bournemouth. There is expected to be a degree of lost passenger traffic attributable to this.

In March 2015, VLM Airlines announced that it would commence operations to Antwerp and onward to Hamburg, Operations commenced in late April 2015.

Outlook
In light of the above, together with the expectation of improved average load factors for 2015 relative to 2014, the Company expects passenger traffic in 2015 to be broadly in line with 2014 levels.

Going concern
The Company finances its activities through finds generated from operations and has access to intra-group funding from its parent companies as well as having issued a long term debenture.

The Companies trading and cash flow projections identify that the business will be cash generative through the period ended 30 June 2016. 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
Financial Review

Introduction

The following financial review provides commentary on the performance of the Company during the year ended 31 December 2014.

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Turnover	**27,424**	26,286
Adjusted operating costs[1]	**(20,257)**	(18,754)
EBITDA - before exceptional items[2]	**7,167**	7,532
Exceptional items	**(33,344)**	(1,844)
EBITDA	**(26,177)**	5,688
Depreciation	**(3,604)**	(3,345)
Operating (loss)/profit	**(29,781)**	2,343
Net interest receivable and similar income	**637**	466
(Loss)/profit on ordinary activities before taxation	**(29,144)**	2,809
Tax charge on profit (loss) on ordinary activities	**(1,389)**	(980)
(Loss)/profit on ordinary activities after taxation	**(30,533)**	1,829

[1] Adjusted operating costs are stated before depreciation, amortisation and exceptional items.

[2] EBITDA before exceptional items is earnings before interest, tax, depreciation, amortisation and exceptional items.

Adjusted operating costs

	Year ended 31 December 2014	Year ended 31 December 2013	Change %
Employment costs	**9,200**	8,283	11.1
Maintenance expenditure	**2,068**	1,673	23.6
Utility costs	**711**	719	(1.1)
Rents and rates	**1,359**	1,286	5.7
General expenses	**5,960**	5,948	0.2
Retail expenditure	**959**	847	13.2
Gain on disposal of fixed assets	**-**	(2)	-
Total adjusted operating costs	**20,257**	18,754	8.0

In the year ended 31 December 2014, adjusted operating costs increased by 8% to £20,257,000 (2013: £18,754,000).

The main movements include an 11.1% increase in employment costs to £9,200,000 (2013: £8,283,000). This was largely the result of increased headcount driven by increased passenger numbers (predominately in security functions) and the requirement for the Company to resource functions previously provided centrally (and charged through intra-group charges) together with a 4% increase in pension costs to £1,398,000 (2013: £1,338,000), which is explained by an increase in the deficits on both the defined benefit pension scheme, the Unapproved Unfunded Retirement Benefit Scheme (UURBS) and the Post-Retirement Medical Benefit Scheme (PRM).

Other movements include a 23.6% increase in maintenance expenditure to £2,063,000 (2013: £1,673,000) as a result of considerable focus on improving the integrity and condition of airfield ground lighting and a 13.2% increase in retail costs to £959,000 (2013: £847,000) due to returning the operation of car park pre-booking and yield management at a local level. This was a centralised function until December 2013 charged to the Company though intra-group charges.

Exceptional items

Pension charge

This item relates to a non-cash pension charge of £1,844,000 (2013: £1,844,000). The charge arose from the Company'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.

Impairment of subsidiary

Following an internal management review, an impairment of £32 million (2013: nil) was recorded against the airport assets due to economic obsolescence.

Strategic report continued
Financial Review continued

Net interest receivable and similar income
Net interest receivable and similar income has increased 36% to £637,000 (2013: £467,000). This is principally as a result of net pension income increasing to £179,000 (2013 £149,000) and capitalised interest expense to £32,000 (2013: £30,000).

Taxation
The tax charge recognised for the year was £1,389,000 (2013: £980,000). Based on a loss before tax for the year of £29,144,000 (2013: £2,809,000), this results in an effective tax rate of 4.8% (2013: 34.9% effective tax rate).

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. As a result the Company's deferred tax balances have been provided for at 20%. The deferred tax liability as at 31 December 2014 is £1,196,000 (2013: £961,000).

Dividend
No dividend was paid or declared in the year ended 31 December 2014 (2013: £nil).

Strategic report continued
Internal controls and risk management

Prior to 18 December 2014

Internal control and risk management were centrally managed at the Heathrow Airport Holdings Limited level up to 18 December 2014. The Executive Committee, Board and Audit Committee ('AC') and Heathrow Finance Committee referred to below relate to the Executive Committee, Board , AC and Heathrow Finance Committee of Heathrow Airport Holdings Limited.

Post 18 December 2014

Subsequent to the acquisition of the group by AGS Airports Limited, Internal control and risk management became the responsibility of the AGS Airports Holdings Limited 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 Limited.

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 (up to 18 December 2014); 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 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 up to 18 December 2014. The new group ARC is considering the need for and resourcing of an Internal Audit function.

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.

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

Strategic report 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 Limited Board level ("AGS Airports Group"). 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 through the use of International Standards. The Company is currently certified to OHSAS 18001 and will undertake accreditation audits for ISOs' 14001 and 55001 in 2015. 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 remain safe. Governance, led by the LGG, 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 throughout the Group. 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 CAA, police and 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. However, during 2014, the Company transitioned to align itself with the new European Air safety Agency (EASA) standards. The CAA is concerned with air safety, 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 skilled senior management staff that ensure 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.

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.

Strategic report continued

Principal risks and uncertainties and risk management *continued*

Commercial and financial risks continued

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 AGS Airports Group is recognised. The Company has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The Company's pay agreement, which was reached in mid-2014, established the pay structure to apply for 2014 and 2015.
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 immediate parent company, Airport Holdings NDH1 Limited group (the 'NDH1 Group'), which is the parent undertaking of the smallest group to consolidate these financial statements. AGS Airports Limited 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 Airports 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 Group's business operations and funding. To achieve this, the AGS Airports Group enters into interest rate swaps, to protect against interest rate risks.

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

(a) Interest rates
The AGS Airports 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 Airports 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 2014, cash and cash equivalents were £38 million and undrawn headroom under bank credit facilities was £145million.

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 Airports 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 Airports 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

26 June 2015
Company registration number: 02431858

Southampton International Airport Limited

Directors' report

The Directors present their Annual report and the audited financial statements for Southampton International Airport Limited for the year ended 31 December 2014.

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.

Results and dividends
The loss after taxation for the financial year amounted to £30,533,000 (2013: profit £1,829,000). No dividends were proposed or paid during the year (2013: £nil). The statutory results are set out on page 13.

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

David Lees
Jonathan Long (resigned 18 December 2014)
Jim O'Sullivan (resigned 18 December 2014)
Ignacio Aitor Garcia Bilbao (appointed 18 December 2014)
John Bruen (appointed 18 December 2014)
Richard Abel (appointed 18 December 2014)
Fidel Lopez Soria (appointed 18 December 2014)

Employment policies
Until 18 December 2014, the Company had no direct employees. The staff were employed by LHR Airports Limited, a subsidiary of the Heathrow Airport Holdings Group. Following the sale to AGS Airports, the employees transferred to be employees of Southampton International Airport Limited.

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 13 days purchases outstanding at 31 December 2014 (restated 2013: 5 days) based on the average daily amount invoiced by suppliers during the year.

Southampton International Airport Limited

Directors' report continued

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

Going concern
The Company finances its activities through finds generated from operations and has access to intra-group funding from its parent companies as well as having issued a long term debenture.

The Companies trading and cash flow projections identify that the business will be cash generative through the period ended 30 June 2016. 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.

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 deemed re-appointed following the proposed 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

26 June 2015

Company registration number: 02431858

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board

David Lees
Director

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 2014 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Reconciliation of movements in shareholder's funds, the Balance sheet, the Accounting policies, the Significant accounting judgements and estimates and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 2014 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 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
26 June 2015

Southampton International Airport Limited

Profit and loss account for the year ended 31 December 2014

	Note	**Year ended 31 December 2014 £'000**	Year ended 31 December 2013 £'000
Turnover	*1*	**27,424**	26,286
Operating costs – ordinary	*2*	**(23,861)**	(22,099)
Operating costs - exceptional	*3*	**(33,344)**	(1,844)
Total operating costs		**(57,205)**	(23,943)
Operating (loss)/profit		**(29,781)**	2,343
Net interest receivable and similar income	*4*	**637**	466
(Loss)/profit on ordinary activities before taxation		**(29,144)**	2,809
Tax charge on (loss)/profit on ordinary activities	*5*	**(1,389)**	(980)
(Loss)/profit on ordinary activities after taxation	*13*	**(30,533)**	1,829

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

Southampton International Airport Limited

Statement of total recognised gains and losses for the year ended 31 December 2014

	Note	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
(Loss)/Profit for the financial year	*13*	**(30,533)**	1,829
Unrealised gain/(loss) on revaluation of investment properties	*6,13*	**1,985**	(7,176)
Pension scheme acquired	*14*	**947**	-
Actuarial gain recognised on pension scheme	*14*	**271**	-
Deferred tax arising on pension scheme	*14*	**(243)**	-
Total recognised gains and losses relating to the year		**(27,573)**	(5,347)

Reconciliation of movements in shareholders' funds for the year ended 31 December 2014

	Note	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
(Loss)/Profit for the financial year	*13*	**(30,533)**	1,829
Unrealised gain/(loss) on revaluation of investment properties	*6,13*	**1,985**	(7,176)
Pension scheme acquired	*14*	**947**	-
Actuarial gain recognised on pension scheme	*14*	**271**	-
Deferred tax arising on pension scheme	*14*	**(243)**	-
Net movement in shareholder's funds		**(27,573)**	(5,347)
Opening shareholder's funds		**116,558**	121,905
Closing shareholder's funds		**88,985**	116,558

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

Southampton International Airport Limited

Balance sheet as at 31 December 2014

	Note	31 December 2014 £'000	31 December 2013 £'000
Assets			
Non-current assets			
Tangible fixed assets	6	**78,621**	108,052
Pension asset	14	**947**	-
Total assets		**79,568**	108,052
Current assets			
Stocks	7	**159**	113
Debtors	8	**22,815**	21,117
Cash at bank		**7**	24
Total current assets		**22,981**	21,254
Current liabilities			
Creditors: amounts falling due within one year	9	**(5,096)**	(5,677)
Net current assets		**17,885**	15,577
Total assets less current liabilities		**97,453**	123,629
Creditors: amounts falling due after more than one year	10	**(7,254)**	(3,438)
Provisions for liabilities and charges	11	**(1,214)**	(3,633)
Net assets		**88,985**	116,558
Capital and reserves			
Share capital	12	**40,000**	40,000
Revaluation reserve	13	**29,894**	27,909
Profit and loss reserve	13	**19,091**	48,649
Total shareholder's funds		**88,985**	116,558

The financial statements of Southampton International Airport Limited (Company registration number: 02431858) were approved by the Board of Directors and authorised for issue on 26 June 2015. They were signed on its behalf by:

David Lees
Director
26 June 2015

Accounting policies for the year ended 31 December 2014

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

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

Going concern
The Company finances its activities through finds generated from operations and has access to intra-group funding from its parent companies as well as having issued a long term debenture.

The Companies trading and cash flow projections identify that the business will be cash generative through the period ended 30 June 2016. 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.

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

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

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.

Accounting policies for the year ended 31 December 2014 continued

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

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

Provisions to recognise the Company's liability to fund 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 Shared Services Agreement were also treated as an exceptional item. Refer to the Shared Services Agreement accounting policy.

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

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

Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete and the asset is available for use. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction-related project management and directly attributable overheads. Costs associated with projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Company. The Company reviews these projects on a regular basis, and at least every six months, to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

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

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

In accordance with Statement of Standard Accounting Practice 19 *Accounting for Investment Properties*, no depreciation is provided in respect of freehold or long leasehold investment properties.

Capitalisation of interest
Interest payable 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.

Accounting policies for the year ended 31 December 2014 continued

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
Fixtures and fittings	5-10 years
Other plant and equipment	5-10 years
Other land and buildings	
Short leasehold properties	period of lease
Leasehold improvements	lower of useful economic life or period of lease

Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

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

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

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

Company as a lessee
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.

Accounting policies for the year ended 31 December 2014 continued

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

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

Stocks
Raw materials and consumables consist of engineering spares and other consumable stores and are valued at the lower of cost and net realisable value and includes all costs to bring inventories to their present location and condition.

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

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

Creditors
Creditors are recognised at cost.

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

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

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

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

Shared Services Agreement ('SSA')
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.

Accounting policies for the year ended 31 December 2014 continued

Corporate and centralised services continued
Post 18 December 2014

LHR Airports Limited has continued to provide the services under the terms of a transitional Services Agreement entered into between LHR Limited and AGS Airports Limited

Pension costs
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 exceptional 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.

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

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

In accordance with FRS 19 *Deferred Tax,* deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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

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

Accounting policies for the year ended 31 December 2014 continued

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

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

Cash flow statement and related party transactions
Prior to 18 December 2014
The ultimate parent entity in the UK was FGP Topco Limited, a company registered in England and Wales. The results of the Company were included in the audited consolidated financial statements of FGP Topco Limited for the period up to 17 December 2014.

The Company is exempt under the terms of FRS 8 *Related Party Disclosures* from disclosing related party transactions with entities that are wholly owned subsidiaries of the Airport Holdings NDH1 Limited Group.

Balances and transactions with entities that are wholly owned subsidiaries of the FGP Topco Limited group would previously have been exempt from disclosure. Such balances are described in the relevant notes to the financial statements.

Post 18 December 2014
Following the acquisition of Airport Holdings NDH1 Limited, by AGS Airports Limited, the ultimate parent entity in the UK is now AGS Airports Holdings Limited, a company registered in England and Wales. The first year end for AGS Airports Limited and AGS Airports Holdings Limited will be 31 December 2015. The results of Southampton International Airport Limited are included in the audited consolidated financial statements of Airport Holdings NDH1 Limited, which is the immediate parent entity and the smallest group to consolidate these financial statements, Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 *Cash Flow Statements (revised 1996)*.

The Company is exempt under the terms of FRS 8 *Related Party Disclosures* from disclosing related party transactions with entities that are wholly owned subsidiaries of the AGS Airports Limited group

Southampton International Airport Limited

Significant accounting judgements and estimates for the year ended 31 December 2014

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

Investment properties
Investment properties were valued as at 31 December 2014 at fair value by CBRE Limited Chartered Surveyors. The valuations were prepared in consideration of UK GAAP 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. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Approximately 98% (2013: 98%) of the investment properties comprise airport car parks and airside assets that are considered less vulnerable to market volatility than the overall market. Independent valuations were obtained for 100% of the investment properties.

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.

Capitalisation
Management are required to make judgements in relation to the capitalisation of costs. This relates to both when amounts may begin to be capitalised, where there may be doubt about planning consent or the ultimate completion of the asset, and in relation to the nature of costs incurred. Examples where judgement has been exercised in the year include capitalised interest, where judgement is exercised in relation to the applicable interest rate and the assessment of AICC projects on hold, and operational readiness activities where judgement is exercised to determine costs that are directly attributable to the assets under construction.

Southampton International Airport Limited

Notes to the financial statements for the year ended 31 December 2014

1 Segment information

The Directors have elected not to provide segmental information as permitted by the Companies Act 2006 (Acc Regs Sch 1:68). All of the Company's turnover arises in the United Kingdom and relates to continuing operations.

2 Operating costs – ordinary

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Wages and salaries	**6,753**	6,110
Social security	**676**	584
Pensions	**1,435**	1,338
Contract and agency staff	**2**	1
Other staff related costs	**334**	250
Employment costs	**9,200**	8,283
Maintenance expenditure	**2,068**	1,673
Utility costs	**711**	719
Rents and rates	**1,359**	1,286
General expenses	**1,873**	1,222
Retail expenditure	**959**	847
Intra-group charges/other	**307**	1,036
Aerodrome navigation service charges	**3,765**	3,675
Depreciation	**3,604**	3,345
Police	**15**	15
Gain on disposal of tangible fixed assets	**-**	(2)
	23,861	22,099

Cost items have been presented below by their underlying nature.

	Year ended 31 December 2014	Year ended 31 December 2013
Employment costs	**9,200**	8,283
Maintenance expenditure	**2,068**	1,673
Utility costs	**711**	719
Rents and rates	**1,359**	1,286
General expenses	**5,960**	5,948
Retail expenditure	**959**	847
Disposal on fixed assets	**-**	(2)
Total adjusted operating costs	**20,257**	18,754
Depreciation	**3,604**	3,345
Exceptional items (note 3)	**1,844**	1,844
Total operating items	**25,705**	23,943

2 Operating costs – ordinary *continued*

Auditor's remuneration

Audit fees and non-audit fees for the preceding financial years were borne by LHR Airports Limited and recharged in accordance with the SSA as described within the Accounting policies. Fees for the current year are borne directly by the company.

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts:		
Audit of the Company pursuant to legislation	**21**	2
Non-audit fees payable to the Company's auditor and their associates for other services specific to the Company:		
Audit related assurance services	**1**	2
Tax compliance services	**-**	-
Other tax services	**1**	-
Other assurance services	**1**	1
Total non-audit fees	**3**	3
Total fees	**24**	5

Employee information

Prior to 18 December 2014, the Company had no direct employees (2013: nil). Staff 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 was 181 (2013: 172). The number of employees does not include headcount related 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. On 18 December 2014, all staff engaged in the operation of Southampton Airport were transferred to the Company.

Directors' remuneration

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Directors' remuneration		
Aggregate emoluments	**215**	193
Value of company pension contributions to defined benefit scheme	**48**	52
	263	245

	Year ended 31 December 2014 Number	Year ended 31 December 2013 Number
Number of Directors who:		
are members of a defined benefit pension scheme	**1**	1

Jim O'Sullivan, Jorge Lavin and Jonathan Long were directors of a number of companies within the Heathrow Airport Holdings Group. Jim O'Sullivan was paid by and is a director of LHR Airports Limited. Jonathan Long was paid by, but is not a director of LHR Airports Limited. The directors do not believe it is possible to accurately apportion their remuneration to individual companies within the Heathrow Airport Holdings Group based on services provided.

One director participates in various Long Term Incentive Performance Cash Plans operated by LHR Airports Limited. In respect of the Plans, 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 £14,489 payable in 2015 (2013: £14,000 paid in 2014) in respect of the 2011 LTIP Plan after certain targets were met over the three year period from 2011 to 2013.

No director (2013: two) exercised share options during the year in respect of their services to the Heathrow Airport Holdings Group. All share options granted under previous long term incentive plans have now lapsed.

3 Operating costs - exceptional

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Pension charge[1]	**(1,844)**	(1,844)
Impairments	**(31,500)**	-
Total operating costs – exceptional	**(33,344)**	(1,844)

[1] During 2014 there was a net exceptional pension charge of £1,844,000 (2013: £1,844,000). This includes the Company's share of the movement in the LHR Airports Limited defined benefit pension scheme, Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

Impairment

Following an internal management review, an impairment of £32 million (2013: nil) was recorded against the airport assets due to economic obsolescence.

4 Net interest receivable and similar income

	Note	**Year ended 31 December 2014 £'000**	Year ended 31 December 2013 £'000
Interest receivable and similar income			
Pensions finance income:			
Prior scheme		**196**	149
New AGS scheme		**22**	-
Interest receivable from group undertakings[1]		**531**	385
		749	534
Interest payable			
Pensions finance expense:			
Prior scheme		**(17)**	-
New AGS scheme		**(22)**	-
Interest payable to group undertakings[2]		**(105)**	(97)
		(144)	(97)
Fair value loss on financial instruments		**-**	(1)
Interest capitalised[3]	*5*	**32**	30
Net interest receivable and similar income		**637**	466

[1] These amounts relate mainly to interest accrued on balances due from Airport Holdings NDH1 Limited (Note 8).
[2] These amounts relate to interest due on the loan from Airport Holdings NDH1 Limited (Note 10)
[3] Interest capitalised at a rate of 7.07% (2013: 6.69%)

Southampton International Airport Limited

Notes to the financial statements for the year ended 31 December 2014 *continued*

5 Tax on profit on ordinary activities

	Note	**Year ended 31 December 2014 £'000**	Year ended 31 December 2013 £'000
Current tax			
Group tax relief payable		**1,154**	1,223
Adjustments in respect of prior periods		**7**	74
Total current tax		**1,161**	1,297
Deferred tax			
Origination and reversal of timing differences		**255**	(83)
Adjustments in respect of prior periods		**(20)**	(67)
Change in tax rate		**-**	(167)
Increase/(decrease) in deferred tax provision		**235**	(317)
Deferred tax in relation to pensions		**(7)**	-
Total deferred tax	*11*	**228**	(317)
Tax charge on profit on ordinary activities		**1,389**	980

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 21.5% (2013: 23.5%). The actual tax charge for the current and prior years differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
(Loss)/Profit on ordinary activities before tax	**(29,144)**	2,809
Tax on (loss)/profit on ordinary activities at 21.5% (2013: 23.25%)	**(6,266)**	653
Effect of:		
Permanent differences	**7,701**	281
Depreciation for the year in excess of capital allowances	**173**	106
Capitalised interest	**(7)**	(6)
Other short term timing differences	**(405)**	189
Rate differences	**(42)**	-
Adjustments to tax charge in respect of prior periods	**7**	74
Current tax charge for the year	**1,161**	1,297

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. As a result the Company's deferred tax balances have been provided for at 20%. Other than the unprovided deferred tax discussed in note 11, there are no items which would materially affect the future tax charge.

Southampton International Airport Limited

Notes to the financial statements for the year ended 31 December 2014 *continued*

6 Tangible fixed assets

	Note	Investment properties[1] £'000	Terminal complexes £'000	Airfield £'000	Other land and buildings £'000	Plant, equipment & other assets £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation								
1 January 2014		46,780	28,971	38,333	8,206	16,999	1,905	141,194
Additions at cost		-	-	-	-	4	3,652	3,656
Borrowing costs capitalised	3	-	-	-	-	-	32	32
Reclassifications		(111)	234	(17)	10	(116)	-	-
Disposals		-	(37)	(273)	-	(429)	-	(739)
Revaluation[2]	13	1,985	-	-	-	-	-	1,985
Transfer to Completed Assets		(114)	1,112	347	(125)	200	(1,420)	-
31 December 2014		**48,540**	**18,194**	**22,399**	**4,668**	**16,658**	**4,169**	**146,128**
Depreciation								
1 January 2014		-	(11,153)	(6,463)	(2,786)	(12,740)	-	(33,142)
Depreciation Charge		-	(1,338)	(598)	(309)	(1,359)	-	(3,604)
Disposals		-	37	273	-	429	-	739
Impairments		-	(10,265)	(18,342)	(2,893)	-	-	(31,500)
Reclassifications		-	(140)	(1)	(11)	152	-	-
31 December 2014		**-**	**(22,859)**	**(25,131)**	**(5,999)**	**(13,518)**	**-**	**(67,507)**
Net book value 31 December 2014		**48,540**	**17,686**	**31,601**	**4,985**	**3,140**	**4,169**	**78,621**
Net book value 31 December 2013		46,780	17,818	31,870	5,420	4,259	1,905	108,052

1 Included in investment properties are assets with a carrying value of £46,560,000 (2013:£ 44,580,000) which the Company has provided as security for the £30.0 million debenture that is held by BAA Lynton Limited and due in 2017.
2 Investment properties were re-valued, by CBRE Limited, as at 31 December 2014. This has resulted in a gain of £1,985,000.
3 Impairment of assets - Following an internal management review, an impairment of £32 million (2013: nil) was recorded against the airport assets due to economic obsolescence.

6 Tangible fixed assets *continued*

Valuation

Investment properties were valued at open market value by CBRE Limited, Chartered Surveyors, at £48,540,000 (2013: £46,780,000). These valuations were prepared in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors taking account, *inter alia*, of planning constraints and reflecting the demand for airport related uses. As a result of the valuation, a gain of £1,985,000 (2013: £7,176,000 deficit) has been recognised in the revaluation reserve. The revaluation gain reflects changes in market assumptions depicted by the valuer on an asset by asset basis and is consistent with capital value movements in the investment property market.

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

Historical cost

The historical cost of investment properties at 31 December 2014 was £18,595,000 (2013: £18,595,000).

Other land and buildings

Other land and buildings are all freehold.

Assets in the course of construction

Assets in the course of construction comprise capital expenditure on on-going capital projects under the Company's capital investment programme. Projects in progress at 31 December 2014 include the replacement of the fire training rig, the replacement of the facilities management software system, replacement of block paving on airside roadways and stands, work on departure lounge expansion and design works on Terminal Walkway.

Capitalised interest

Included in the net book value of assets after depreciation are interest costs of £878,000 (2013: £846,000). £32,000 (2013: £30,000) has been capitalised in the year at an average capitalisation rate of 7.07% (2013: 6.69%) based on a weighted average cost of borrowings.

A tax deduction of £32,000 (2013: £30,000) for capitalised interest was taken in the year. Subsequent depreciation of the capitalised interest is disallowed for tax purposes. Consequently, the capitalised interest gives rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Leased assets

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

	31 December 2014	31 December 2013
	£'000	£'000
Cost or valuation	**6,920**	6,645
Accumulated depreciation	**(320)**	(306)
Net book amount	**6,600**	6,339

A significant portion of freehold property is occupied by third parties under management agreements.

7 Stocks

	31 December 2014	31 December 2013
	£'000	£'000
Raw materials and consumables	**159**	113

The replacement cost of raw materials and consumables at 31 December 2014 and 31 December 2013 was not materially different from the amount at which they are included in the Balance sheet.

Notes to the financial statements for the year ended 31 December 2014 *continued*

8 Debtors

	31 December 2014 £'000	31 December 2013 £'000
Trade debtors	**1,020**	703
Accrued income	**1,615**	3,140
Amounts owed by group undertakings - interest bearing[1]	**19,123**	16,282
Other debtors	**263**	341
Prepayments	**104**	390
Interest receivable from group undertakings	**690**	159
Corporation tax receivable	**-**	102
	22,815	21,117

1 Amounts owed by group undertakings - interest bearing relate to cash sweeps transferred to the Company's immediate parent. Cash is swept between the companies on a regular basis. As at 31 December 2014, the balance accrues interest at a rate of 3.16% per annum (2013: 3.01%).

9 Creditors: amounts falling due within one year

	31 December 2014 £'000	31 December 2013 £'000
Trade creditors	**598**	340
Accrued expenditure	**2,720**	2,681
Capital creditors	**505**	222
Amounts owed to group undertakings - interest free[1]	**-**	1,154
Group relief payable	**646**	724
Other creditors	**95**	42
Other taxes and social security costs	**162**	149
Deferred income	**329**	326
Interest payable to group undertakings	**41**	39
	5,096	5,677

1 Trade creditors are non-interest bearing and generally on 30-day terms.
2 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. There are no such balances at 31 December 2014.

10 Creditors: amounts falling due after more than one year

	31 December 2014 £'000	31 December 2013 £'000
Amounts owed to group undertakings - interest bearing[1]	**7,254**	3,438

1 Amounts owed to group undertakings - interest bearing relate to the loan advanced from Airport Holdings NDH1 Limited. The interest on the loan is set at 0.125% above the rate of Airport Holdings NDH1 Limited's senior loan facility. As at 31 December 2014, the balance accrues interest at a rate of 3.16 % per annum (2013: 3.01%).

11 Provisions for liabilities and charges

	Deferred tax (a) £'000	Pension costs (b) £'000	Other £'000	Total £'000
1 January 2014	961	2,651	21	3,633
Charged to profit and loss account	235	558	-	793
Transferred to inter-company	-	(3,209)	-	(3,209)
Credited to profit and loss account	-	-	(3)	(3)
31 December 2014	**1,196**	**-**	**18**	**1,214**

Notes to the financial statements for the year ended 31 December 2014 *continued*

11 Provisions for liabilities and charges *continued*

(a) Deferred tax

	31 December 2014	31 December 2013
	£'000	£'000
Excess of capital allowances over depreciation	**1,212**	1,384
Other timing differences	**(16)**	(423)
	1,196	961

Analysis of the deferred tax balance is as follows:

	Un-provided 31 December 2014	Un-provided 31 December 2013
	£'000	£'000
Tax on chargeable gains if investment properties were sold at their current valuations	**4,733**	4,313
Tax on rolled-over gains if replacement assets were sold at their current valuations	**14**	14
	4,747	4,327

Provision has been made for deferred taxation in accordance with FRS 19 *Deferred Tax*.

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value or on the sale of properties where taxable gains have been rolled over into replacement assets. The total amount of tax unprovided for is £4,747,000 (2013: £4,327,000). At present it is not envisaged that this tax will become payable in the foreseeable future.

(b) Pension costs

At 31 December 2013, £2,026,000 represents an intercompany management charge in relation to the costs incurred on the defined benefit pension scheme held at LHR Airports Limited. The remaining £625,000 was held for historical accumulated past service pension costs borne by LHR Airports Limited in relation to Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities.

On 18 December 2014, when Airport Holdings NDH1 Limited was acquired by AGS Airports Limited, the balances in relation to the LHR and the Unfunded Unapproved Retirement Benefit Scheme and Post-Retirement Medical Benefits pension related liabilities were transferred to intra-group creditors as these became due to Airport Holdings NHD 1 Limited.

12 Share capital

	£'000
Called up, allotted and fully paid	
1 January and 31 December 2014	
40,000,002 ordinary shares of £1 each	**40,000**

Notes to the financial statements for the year ended 31 December 2014 *continued*

13 Reserves

	Note	Revaluation reserve £'000	Profit and loss reserve £'000	Total £'000
1 January 2014		27,909	48,649	76,558
Loss for the financial year		-	(30,533)	(30,533)
Unrealised loss on revaluation of investment properties	6	1,985	-	1,985
Pension scheme acquired	14	-	947	947
Actuarial gain recognised in the pension scheme	14	-	271	271
Deferred tax arising on pension scheme	14	-	(243)	(243)
31 December 2014		**29,894**	**19,091**	**48,985**

14 Pensions scheme

Defined benefit schemes

The company is a participating employer in the AGS Airports Limited defined benefit pension scheme. On 18 December 2014, the pension assets and liabilities attributable to the company at the point of acquisition of the Airport Holdings NDH1 Group by AGS Airports, were transferred to the company.

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 this 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 are currently engaged in discussions with the Trustees of the BAA Pension Scheme to finalise the bulk transfer values in respect of the pension entitlements of those employees who transferred over to the new Group following the sale of the business on 18th December 2014. Once this exercise has been completed and the amount of the pension obligations and the related pension assets have been agreed, it is the intention to perform a formal valuation of the Scheme. Thereafter, the pension fund will be subject to triennial valuations and the defined benefit obligation or surplus will be calculated quarterly 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.

	2014 £000
Present value of funded defined benefit obligations	(16,845)
Fair value of plan assets	18,027
Surplus	1,182
Related deferred tax liability	(235)
Net asset	947

Movements in present value of defined benefit obligation

	2014 £000
At 1 January	-
Transfer of liabilities on acquisition	(16,726)
Current service cost	(37)
Interest cost	(22)
Actuarial losses	(60)
At 31 December	(16,845)

14 Pension schemes *continued*

Movements in fair value of plan assets

	2014 £000
At 1 January	-
Transfer of assets on acquisition	17,673
Expected return on plan assets	23
Actuarial gains	331
At 31 December	18,027

Expense recognised in the profit and loss account

	2014 £000
Current service cost	37
Interest cost	22
Expected return on defined benefit pension plan assets	(23)
Total	36

The expense is recognised in the following line items in the profit and loss account:

	2014 £000
Operating costs	37
Other interest receivable and similar income	(23)
Interest payable and similar charges	22
	36

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains is £271,000.

Cumulative actuarial gains reported in the statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are £271,000.

The fair value of the plan assets and the return on those assets were as follows:

	2014 Fair value £000
Cash	18,027
Actual return on plan assets	354

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2014 %
Discount rate	3.7
Expected rate of return on plan assets	3.7
Expected return on plan assets at beginning of the period	-
Future salary increases	3.3
RPI inflation	3.3
Pension increases in payment	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 65-year old to live for a number of years as follows:

14 Pension schemes *continued*

Current pensioner aged 65: 29.1 years (male), 31.7 years (female).

Future retiree upon reaching 65: 27.1 years (male), 29.6 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.

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.

History of plans

The history of the plans for the current and prior periods is as follows: *Balance sheet*

	2014 **£000**
Present value of scheme liabilities	**(16,845)**
Fair value of scheme assets	**18,027**
Surplus	**1,182**

Experience adjustments

	2014 **£000**
Experience adjustments on scheme liabilities	-
Experience adjustments on scheme assets	331

The Company expects to contribute approximately £1,147,000 to its defined benefit plans in the next financial year

15 Commitments

Commitments for capital expenditure

Contracted capital expenditure commitments amount to £1,339,000 (2013: £1,266,000).

Commitments under operating leases

At 31 December 2014, the Company was committed to making the following payments during the next year in respect of operating leases.

	31 December 2014		31 December 2013	
	Land and buildings £'000	**Other leases £'000**	Land and buildings £'000	Other leases £'000
Leases which expire: within one year	**3**	**-**	3	5
Leases which expire: within 2 to 5 years	**-**	**-**	-	-

16 Contingent liabilities

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 their financing agreements.

Notes to the financial statements for the year ended 31 December 2014 *continued*

17 Ultimate parent undertaking

The immediate parent undertaking of the Company is Airport Holdings NDH1 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 Airports 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 Airport Holdings NDH1 Limited for the year ended 31 December 2014, which is the parent undertaking of the smallest group to consolidate these financial statements.

AGS Airports Holdings Limited is the largest group at which the Company's results are consolidated which is the top company entity of the Group.

Copies of the financial statements of Airport Holdings NDH1 Limited may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.