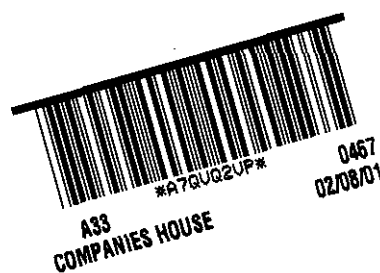


SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

Report and Financial Statements for the Year Ended 31 March 2001



Company Registration Number 2431858

REPORT AND FINANCIAL STATEMENTS 2001

CONTENTS	Page
Officers and Professional Advisers	1
Directors' Report	2
Statement of Directors' Responsibilities	5
Auditors' Report	6
Profit and Loss Account	7
Statement of Total Recognised Gains and Losses	8
Reconciliation of Movements in Shareholders' Funds	8
Balance Sheet	9
Notes to the Financial Statements	10
Accounts Conditions Disclosures	23

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Mrs J C Kong	-	Chairman
C E Hobbs	-	Managing Director
D G Dalgleish	-	Finance Director
Mrs J Fletcher	-	Director
R D Herga	-	Alternate Director to M S Hodgkinson
M S Hodgkinson	-	Director

SECRETARY

M B Lewis

REGISTERED OFFICE

130 Wilton Road
London
SW1V 1LQ

AUDITORS

Deloitte & Touche
Chartered Accountants

BANKERS

Barclays Bank Plc

SOLICITORS

Herbert Smith

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for Southampton International Airport Limited ("the Company") for the year ended 31 March 2001 ("the year").

PRINCIPAL ACTIVITIES

The Company owns and is the licensed operator of Southampton International Airport.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The year has benefited from a new route to Frankfurt, plus increased rotations to Dublin, Newcastle, Paris and Amsterdam. Commercial passengers grew by 13% to marginally under 867,000, while aircraft movements increased by 11.5% to over 28,000. In addition, the company benefited from the full year effect of the outsourcing of handling operations and air traffic control activities.

The Airport increased operating profit by 52% to a record £3.4m. The negative effect on Retail operations seen last year, as a result of the abolition of EU duty & tax free sales, has now been recovered and income from these operations has increased by 7%.

Looking to the future, uncertainty in the economy and the foot and mouth outbreak could result in a lower level of passenger growth this year. The construction of a £7.5m decked car park, due for completion in Autumn 2001, will provide capacity for the Airport to meet car parking demand and facilitate retail income growth.

RESULTS AND DIVIDENDS

The profit for the year before taxation amounted to £2.99m (2000: £1.94m). The directors do not recommend the payment of a dividend (2000: £nil).

BOARD OF DIRECTORS

The following persons were directors of the Company during the year:

Mrs J C Kong
C E Hobbs
D G Dalglish
Mrs J Fletcher
R D Herga
M S Hodgkinson

All directors served throughout the year.

DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS

The interests of the directors holding office at the year end in the ordinary shares of BAA plc are set out in Note 4 to the financial statements.

EMPLOYEES

The Company has no direct employees. The staff are employed by BAA plc which is the Company's ultimate parent company.

PAYMENT PRACTICE

The Company's policy is to follow the DTI's Better Payment Practice Code which is reproduced in the report and accounts of BAA plc. The Company had 31 days purchases outstanding at 31 March 2001 (2000: 27 days) based on the average daily amount invoiced by suppliers during the year ended 31 March 2001.

DONATIONS

Charitable donations for the year amounted to £11,174 (2000: £11,500). No donations were made for political purposes.

EUROPEAN AND MONETARY UNION

Southampton International Airport Limited has continued to monitor developments for the proposed entry of the UK to a single European Currency. An implementation strategy for the introduction of the euro if and when the UK elects to join EMU has been developed and is under continual review.

During the period while sterling is floating freely against the euro the Company's policy is to:

- Treat the euro as another foreign currency,
- Continue to raise invoices and require settlement in sterling,
- Settle liabilities according to the currency of the contract.

We continue to consult with our customers. Passengers are able to pay for goods in euros at the prevailing sterling/euro exchange rate by using credit cards or travellers' cheques within our airport terminals.

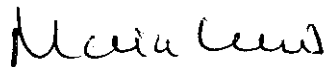
DIRECTORS' REPORT (continued)

The impact of EMU and the introduction of euro notes and coins amongst member states with effect from 1 January 2002 has been assessed and strategies developed to minimise any impact to the Company.

AUDITORS

In accordance with Section 386 of the Companies Act 1985 a resolution has been passed to dispense with the obligation to appoint auditors annually. Accordingly, Deloitte & Touche shall be deemed to be re-appointed as auditors 28 days after the accounts are sent to the members.

By order of the Board



M B Lewis
Company Secretary

1 June 2001

Registered Office:
130 Wilton Road
London
SW1V 1LQ

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The above statement should be read in conjunction with the statement of the auditors' responsibilities set out on page 6.

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 7 to 22 which have been prepared under the accounting policies set out on pages 10 to 12.

Respective responsibilities of directors and auditors

As described on page 5, the Company's directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

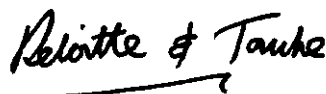
Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
Global House,
High Street,
Crawley,
West Sussex.
RH10 1DL

1 June 2001

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2001

	Note	2001 £'000	2000 £'000
Revenue from continuing operations	2	14,498	12,488
Operating costs	3	<u>(11,141)</u>	<u>(10,286)</u>
Operating profit - continuing operations		3,357	2,202
Net interest payable	5	<u>(366)</u>	<u>(262)</u>
Profit on ordinary activities before taxation		2,991	1,940
Tax on profit on ordinary activities	6	<u>(782)</u>	<u>(462)</u>
Retained profit for the financial year	14	<u><u>2,209</u></u>	<u><u>1,478</u></u>

The notes on pages 10 to 22 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2001

	Note	2001 £'000	2000 £'000
Profit for the financial year	14	2,209	1,478
Unrealised revaluation surplus	14	1,754	1,711
Total recognised gains and losses relating to the financial year		<u>3,963</u>	<u>3,189</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 March 2001

	Note	2001 £'000	2000 £'000
Profit for the financial year	14	2,209	1,478
Other recognised gains and losses relating to the financial year	14	<u>1,754</u>	<u>1,711</u>
Net addition to shareholders' funds		3,963	3,189
Opening shareholders' funds		<u>47,460</u>	<u>44,271</u>
Closing shareholders' funds		<u>51,423</u>	<u>47,460</u>

BALANCE SHEET AT 31 MARCH 2001

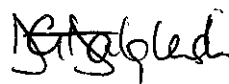
	Note	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	7	56,266	54,018
CURRENT ASSETS			
Stocks	8	188	190
Debtors	9	1,811	1,270
Cash at bank and in hand		-	208
TOTAL CURRENT ASSETS		1,999	1,668
CREDITORS: amounts falling due within one year	10	(6,508)	(7,987)
NET CURRENT LIABILITIES		(4,509)	(6,319)
TOTAL ASSETS LESS CURRENT LIABILITIES		51,757	47,699
PROVISIONS FOR LIABILITIES AND CHARGES	11	(334)	(239)
NET ASSETS		51,423	47,460
CAPITAL AND RESERVES			
Called up share capital	13	40,000	40,000
Revaluation reserve	14	10,127	8,373
Profit and loss account	14	1,296	(913)
EQUITY SHAREHOLDERS' FUNDS		51,423	47,460

The notes on pages 10 to 22 form part of these financial statements.

These financial statements were approved by the Board of Directors on 1st June 2001 and signed on behalf of the Board



Mr C E Hobbs
Managing Director



Mr D G Dalglish
Finance Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Basis of accounting

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, as noted separately. The directors have prepared the accounts on a going concern basis because the ultimate parent has agreed to continue to support the Company.

During the year the depreciation rate for taxiways and aprons was amended. The directors have assessed the useful lives of taxiways and aprons and consider that 50 years (previously 100 years) more fairly reflects the useful lives of the assets and have amended the life accordingly. This change has not had a material impact on prior or current period results.

Revenue

Revenue comprises:

- Airport and traffic charges: the invoiced value of sales from airport activities net of value added tax;
- Property: gross rents receivable and other invoiced sales, net of value added tax;
- Retail: concession rentals from airport retailers due and agreed, net of value added tax.

Fixed assets

(i) Investment properties

Fully completed properties let to, and operated by, third parties and held for long term retention, are accounted for as investment properties and valued at the balance sheet date at open market value. All investment properties are revalued annually and by external valuers at least once every five years. Any surplus or deficit on revaluation is transferred to revaluation reserve except that deficits below original cost which are expected to be permanent are charged to the profit and loss account.

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

In accordance with SSAP 19, Accounting for Investment Properties, no depreciation is provided in respect of freehold or long leasehold investment properties. This is a departure from the Companies Act 1985 which requires all properties to be depreciated. Such properties are not held for consumption but for investment and the directors consider that to depreciate them would not give a true and fair view. Depreciation is only one amongst many factors reflected in the annual valuation of properties and accordingly the amount of depreciation which might otherwise have been charged cannot be separately identified or quantified. The directors consider that this policy results in the accounts giving a true and fair view.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

1. ACCOUNTING POLICIES (continued)

(ii) Operational assets

Terminal complexes, airfield assets, plant and equipment, fixtures and fittings and Group occupied properties are stated at historic cost less accumulated depreciation. Assets in the course of construction are stated at historic cost less provision for diminution in value and it is assumed that projects in early planning stages will receive the consents necessary to achieve a successful outcome. Where appropriate, cost includes interest, own labour and associated overheads.

(iii) Depreciation

Depreciation is provided on operational assets, other than land, to write off the cost of the assets by equal instalments over their expected useful lives as follows:

• Terminal building, pier and satellite structures	up to 50 years
• Terminal fixtures and fittings	5 - 20 years
• Airport plant and equipment:	
• baggage systems	15 years
• screening equipment	7 years
• lifts, escalators, travelators	25 years
• other plant and equipment including runway lighting and building plant	5 - 20 years
• Airport tunnels, bridges and subways	up to 100 years
• Runway surfaces	10 - 15 years
• Runway bases	up to 100 years
• Taxiways and aprons	50 years
• Motor vehicles	4 - 8 years
• Office equipment	5 - 10 years
• Computer equipment	4 - 5 years
• Computer software	4 - 7 years
• Short leasehold properties	over period of lease

Capitalisation of interest

Interest on borrowings which finance tangible fixed assets in the course of construction is capitalised, subject to valuation exceeding cost. Such interest is capitalised once planning permission has been obtained and a firm decision to proceed has been taken until the asset is complete and income producing and is then written off by way of depreciation of the relevant asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

1. ACCOUNTING POLICIES (continued)

Stocks

Raw materials and consumables consist of engineering spares, fuel and other consumable stores and are valued at the lower of cost and net realisable value.

Deferred taxation

Provision is made for timing differences on the liability method to the extent that it is probable that a liability will crystallise in the foreseeable future. No provision for deferred tax is made in respect of the surplus arising on the revaluation of investment properties and land held for development.

Leases

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

Pension costs

The Group's UK pension fund is a defined benefit scheme which is self administered. In accordance with SSAP 24, Accounting for Pension Costs, pension costs are charged to the profit and loss account on a basis that spreads the cost of pensions over the anticipated working lives of employees. Differences between the amount charged in the profit and loss account and payments made to the fund are treated as assets or liabilities in the balance sheet. Independent actuarial valuations on a going concern basis are carried out every three years. Particulars of the actuarial valuation of the schemes are given in the financial statements of BAA plc.

Cash flow statement

The Company is a wholly-owned subsidiary of BAA plc and is included in the consolidated financial statements of BAA plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

2. SEGMENTAL ANALYSIS

	2001 £'000	2000 £'000
Revenue from continuing operations		
Airport and other traffic charges	7,758	7,191
Retail	2,603	2,435
Property	772	729
Other	3,365	2,133
	<u>14,498</u>	<u>12,488</u>

All revenue arises in the United Kingdom. The majority of the operating costs and net assets relate to more than one segment. In the opinion of the directors it would be misleading to apportion operating costs and net assets to individual segments.

3. OPERATING COSTS FROM CONTINUING OPERATIONS

	2001 £'000	2000 £'000
Staff costs:		
Wages and salaries	3,344	4,337
Social security costs	242	326
Pension costs	105	136
Other staff related costs	389	342
	<u>4,080</u>	<u>5,141</u>
Retail expenditure	19	8
Depreciation	1,270	1,543
Maintenance expenditure	614	596
Rent and rates	482	412
Utility costs	277	319
General expenses	4,124	1,869
Other intra-group charges	137	362
Loss on disposals	138	36
	<u>11,141</u>	<u>10,286</u>

In 2001, wages and salaries costs include a recharge of £68,700 (2000: £12,000) in respect of contributions made to the BAA Qualifying Employee Share Ownership Trust in connection with the satisfaction of sharesave options held by BAA plc employees engaged in the business of Southampton International Airport Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

3. OPERATING COSTS FROM CONTINUING OPERATIONS (continued)

	2001 £'000	2000 £'000
Operating costs include:		
Training expenditure	98	90
Rentals under operating leases		
- Hire of plant and machinery	10	16
- Other operating leases	43	35
Charitable donations	11	12
Auditors' remuneration		
- Audit fees	15	13
Legal and other professional fees	<u>240</u>	<u>201</u>

Employee information

The Company has no employees. All staff costs are borne by BAA plc which levies a management charge inclusive of staff costs as shown above.

The average number of employees of BAA plc engaged in the operation of Southampton International Airport during the year was 151 (2000: 200).

Other employee information is disclosed in the financial statements of BAA plc.

4. DIRECTORS' EMOLUMENTS

	2001 £'000	2000 £'000
Directors' emoluments		
(excluding pension contributions and awards under share option schemes and other long term incentive schemes)	<u>192</u>	<u>187</u>

	2001 No.	2000 No.
Number of directors who:		
• are members of a defined benefit pension scheme	5	5
• exercised share options	<u>3</u>	<u>3</u>

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 March 2001****4. DIRECTORS' EMOLUMENTS (continued)****Directors' interests**

The interests of the directors holding office at the year end in the ordinary shares of BAA plc are set out below:

	SHARES		OPTIONS			
	1 April 2000 (or date of appointment if later)	31 March 2001	1 April 2000 (or date of appointment if later)	Granted during the year	Exercised during the year	31 March 2001
Mrs J C Kong	5,880	3,020	109,847	17,995	-	127,842
C E Hobbs	18,046	14,646	62,942	20,417	-	83,359
D G Dagleish	-	1,778	51,075	21,435	3,270	69,240
Mrs J Fletcher	875	3,542	6,343	7,615	2,667	11,291
R D Herga	5,482	7,260	60,116	25,500	1,778	83,838

The directors' interests of M S Hodgkinson are disclosed in the Report and Accounts of BAA plc, the Company's ultimate parent company.

No director had any interest in the shares of the Company or any other subsidiary of BAA plc at any time during the year.

Since the year end D G Dagleish has sold 1,778 shares.

BAA Deferred Annual Bonus Plan ("DAB")

In addition, the interests of the directors holding office at the year end in the ordinary shares of BAA plc held under the DAB are set out below:

	1 April 2000		31 March 2001	
	No. of shares purchased	No. of matching shares to be awarded at end of 3 year qualifying period	No. of shares purchased	No. of matching shares to be awarded at end of 3 year qualifying period
Mrs J C Kong	-	-	2,569	4,281

Details of the DAB are given in the Annual Report of the ultimate parent company, BAA plc.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

4. DIRECTORS' EMOLUMENTS (continued)

BAA Employee Share Trust ("BEST")

The BEST is a discretionary trust which acquires and holds ordinary shares in BAA plc for subsequent transfer to employees who exercise share options or receive share awards under the BAA plc employee share schemes. By virtue of the provisions of the Companies Act 1985, each director, as a potential beneficiary of the BEST, is deemed to have an interest in the ordinary shares in the Company in which the BEST is interested, as shown in the table below:

	1 April 2000	31 March 2001
Number of shares held	-	3,222,808
Interest in shares through derivative contracts	-	4,017,794
	<u>-</u>	<u>7,240,602</u>

5. NET INTEREST PAYABLE

	2001 £'000	2000 £'000
Interest payable		
Payable to ultimate parent company:		
On current loans	391	571
Less: Interest receivable	-	(162)
Less: Interest capitalised	(25)	(147)
Net interest payable	<u>366</u>	<u>262</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £'000	2000 £'000
United Kingdom Corporation tax charged at 30 % (2000: 30%)	(784)	(462)
Prior year adjustment	2	-
	<u>(782)</u>	<u>(462)</u>

The effective tax rate is lowered by the excess of capital allowances over depreciation and capitalised interest.

7. TANGIBLE ASSETS

Valuation

Investment properties and land held for development were valued at open market value by Drivers Jonas, Chartered Surveyors at £13.5 million. These valuations were prepared in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors taking account, inter alia, of planning constraints and reflecting the demand for airport related uses. As a result of the valuation, a surplus of £1.8 million has been transferred to revaluation reserve.

All of the investment properties are freehold assets.

Remaining group occupied properties, terminal complexes, airfield infrastructure, plant and equipment, and other assets, are shown at historical cost at 31 March 2001.

Fully depreciated assets

Cost and accumulated depreciation include £3.2 million (2000: £2.6 million) in respect of fully depreciated assets still in use.

Capitalised interest

The amount of interest included in the cost of assets after depreciation was £171,000 (2000: £172,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

7. TANGIBLE ASSETS (continued)

Cost or valuation	Investment properties £'000	Other land & buildings £'000	Terminal complexes £'000	Runways & lighting £'000	Plant, equipment & other assets £'000	Assets in the course of construction £'000	Total £'000
1 April 2000	11,774	13,714	10,963	12,629	13,226	39	62,345
Additions at cost	-	-	1	-	-	1,836	1,837
Transfers to completed assets	-	384	-	19	339	(742)	-
Interest capitalised	-	-	16	-	-	9	25
Disposals	-	-	-	(37)	(327)	-	(364)
Reclassifications	2	4,228	(4,221)	-	(9)	-	-
Revaluation	1,754	-	-	-	-	-	1,754
31 March 2001	13,530	18,326	6,759	12,611	13,229	1,142	65,597
Depreciation							
1 April 2000	-	-	1,315	1,191	5,821	-	8,327
Charge for the year	-	78	133	246	813	-	1,270
Reclassifications	-	689	(687)	6	(8)	-	-
Disposals	-	-	-	(9)	(257)	-	(266)
31 March 2001	-	767	761	1,434	6,369	-	9,331
Net book value							
31 March 2001	13,530	17,559	5,998	11,177	6,860	1,142	56,266
31 March 2000	11,774	13,714	9,648	11,438	7,405	39	54,018

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

7. TANGIBLE ASSETS (continued)

Historical cost

The historical cost of investment properties and land held for development at 31 March 2001 was £3,403,000 (2000: £ 3,401,000).

8. STOCKS

	2001 £'000	2000 £'000
Goods for resale	78	79
Consumable spares	110	111
	<u>188</u>	<u>190</u>

The replacement cost of consumables at 31 March 2001 and 2000 was not materially different from the amount at which they are included in the accounts.

9. DEBTORS

	2001 £'000	2000 £'000
Due within one year:		
Trade debtors	1,613	962
Other debtors	166	273
Prepayments	32	35
	<u>1,811</u>	<u>1,270</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £'000	2000 £'000
Trade creditors	744	259
Capital creditors	159	149
Amount owed to ultimate parent company	3,445	6,374
Corporation tax payable	485	273
Other taxes and social security	72	83
Accruals and deferred income	1,603	849
	<u>6,508</u>	<u>7,987</u>

11. PROVISIONS FOR LIABILITIES AND CHARGES

	2001 £'000	2000 £'000
Unfunded pension obligations:		
Balance as at 1 April 2000	239	132
Charged to profit and loss	95	107
Balance at 31 March 2001	<u>334</u>	<u>239</u>

12. DEFERRED TAXATION

	Provided		Not Provided	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Excess of capital allowances over depreciation	-	-	3,461	3,355
Revaluation surplus on tangible fixed assets	-	-	2,865	1,847
Other timing differences	-	-	(2)	(36)
	<u>-</u>	<u>-</u>	<u>6,324</u>	<u>5,166</u>

The deferred taxation liabilities have been computed at the expected long term rate of 30% (2000 : 30%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

13. CALLED UP SHARE CAPITAL

	2001 £'000	2000 £'000
Authorised		
50,000,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Called up, allotted and fully paid		
40,000,002 ordinary shares of £1 each	<u>40,000</u>	<u>40,000</u>

14. RESERVES

	Profit and loss account £'000	Revaluation reserve £'000	Total £'000
1 April 2000	(913)	8,373	7,460
Profit for the financial year	2,209	-	2,209
Revaluation surplus	<u>-</u>	<u>1,754</u>	<u>1,754</u>
31 March 2001	<u>1,296</u>	<u>10,127</u>	<u>11,423</u>

15. FUTURE COMMITMENTS

Capital

Future capital expenditure commitments amount to £950,000 (2000: £20,000).

Commitments under operating leases

At 31 March 2001, the Company was committed to making the following payments during the next year in respect of operating leases.

	Land and buildings 2001 £'000	Other 2001 £'000	Land and buildings 2000 £'000	Other 2000 £'000
Leases which expire:				
Within one year	23	-	-	-
Within two to five years	<u>-</u>	<u>8</u>	<u>37</u>	<u>16</u>
	<u>23</u>	<u>8</u>	<u>37</u>	<u>16</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2001

16. ULTIMATE PARENT COMPANY AND CONTROLLING ENTITY

The ultimate parent company and controlling entity is BAA plc, a company registered in England and Wales.

The only group of companies which includes the Company and for which group accounts are prepared, is the BAA plc group. Copies of the financial statements of BAA plc may be obtained by writing to the Company Secretary at 130 Wilton Road, London, SW1V 1LQ.

17. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption granted by paragraph 3c of Financial Reporting Standard No. 8 not to disclose related party transactions with BAA plc group companies.

AIRPORTS ACT 1986

PERMISSION TO LEVY CHARGES

YEAR ENDED 31 MARCH 2001

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

Statement A: Operational/Non - Operational Trading Results

Statement B: Principles of Cost Allocation

Statement C: Connected Party Transactions

Statement D: Audit Report

The information in Statements A, B and C attached, was approved by the Board of Directors on 1 June 2001.

Directors:
C E Hobbs

Date: 1 June 2001

.....
D G Dalglish

Date: 1 June 2001

PERMISSION TO LEVY CHARGES**STATEMENT A**

Operational/Non-operational trading results in accordance with Conditions 3 and 4 for the year ended 31 March 2001

	Income £'000	Expenditure £'000	Profit before tax and interest £'000
Operational Activities:			
Airport Charges	7,396	5,264	2,132
Other Operational Activities	7,102	5,877	1,225
	<hr/>	<hr/>	<hr/>
Total Operational Activities	14,498	11,141	3,357
Non-Operational Activities	-	-	-
	<hr/>	<hr/>	<hr/>
Total	14,498	11,141	3,357
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

These disclosures have been prepared under the historical cost convention modified by the revaluation of certain tangible fixed assets and are in accordance with the accounting policies disclosed within the Southampton International Airport Limited financial statements for the year ended 31 March 2001.

PERMISSION TO LEVY CHARGES

STATEMENT B

Broad Principles of Cost Allocation in Accordance with Conditions 2 and 3 for the Year Ended 31 March 2001

Costs have been allocated into the following categories:

- Airport charges
- Other operational activities
- Non-operational activities

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

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

- Direct expenditure excluding depreciation
- Area occupied
- Staff deployed

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

PERMISSION TO LEVY CHARGES

STATEMENT C

Disclosure Transactions in Accordance with Condition 1 for the Year Ended 31 March 2000

BAA plc costs

The Company is charged by BAA plc £100,000 for services supplied in carrying out the Company's business. This charge includes those costs which are assessed according to usage and are attributed to Southampton International Airport Limited and other fellow subsidiaries on that basis. Other parent company charges include items of expenditure relating directly to the Company which have been charged to the Company. The remaining BAA plc costs cannot be separately attributed on a usage basis because of the nature of the services supplied and have therefore been allocated proportionately on the basis of operating profit subject to a minimum charge of £100,000.

Inter-company account

A proportion of the Company's funding is met by an inter-company account.

Interest on the inter-company current account is charged or credited to the net borrowing calculated at the last day of each month on the balance at the beginning of the month at a percentage rate derived from Barclays Bank plc base rate plus 1.5%.

The interest rate prevailing on the account at 31 March 2001 was 7.25 %.

During the year ended 31 March 2001, the aggregate minimum borrowing was £3.4m at 31 March 2001.

The aggregate maximum borrowing was £5.8m at 30 April 2000.

Other transactions

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

PERMISSION TO LEVY CHARGES

STATEMENT D

AUDIT REPORT

AUDITORS' SPECIAL REPORT TO THE CIVIL AVIATION AUTHORITY (CAA)

We have reviewed the financial information on pages 23 to 26 for which the directors of Southampton International Airport Limited are solely responsible.

In our opinion, the schedules A to C on pages 24 to 26 present fairly the information set forth therein and are in accordance with the requirements of the Accounts Conditions imposed by the CAA under section 40(1)(a) of the Airports Act 1986.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
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RH10 1DL

1 June 2001