SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

Report and Financial Statements for the Year Ended 31 March 2004

Company Registration Number 2431858

REPORT AND FINANCIAL STATEMENTS 2004

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R Cato	-	Chairman
D J Cumming	-	Managing Director
M Clasper	-	Director
D G Dalgleish	-	Finance Director
J Fletcher	-	Director
D S Garrood	-	Director
R D Herga	-	Alternate Director

SECRETARY

M B Lewis

REGISTERED OFFICE

130 Wilton Road
London
SW1V 1LQ

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
209 West George Street
Glasgow
G2 2LW

BANKERS

Barclays Bank Plc
PO Box 544
54 Lombard Street
London
EC3V 9EX

SOLICITORS

Herbert Smith
Exchange House
Primrose Street
London
EC24 2HS

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for Southampton International Airport Limited ("the Company") for the year ended 31 March 2004 ("the year").

PRINCIPAL ACTIVITIES

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

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

During the year commercial passenger numbers increased by 72.8% to a record 1,373,000. This was mainly due to a major expansion at Southampton by Flybe, who introduced eleven new routes and increased frequencies on five existing routes. British Airways also increased frequencies on the majority of their routes, with other operators improving passenger loads.

Turnover increased by 53.6% to £20.6m with growth in airport charges, net retail and property income. Expenditure grew by 36.2% to £14.1m, reflecting the additional resources required to provide a high quality customer service to the increase in passengers. Profit before tax increased to a record £6.0m.

Capital expenditure for the year was £8.8m on many airport infrastructure projects including £6.2m on a key land purchase. During the year, the Company acquired 48 acres of land located at the north-east corner of the Airport which has strategic importance for the future viability of Southampton International Airport Limited, enabling it to remain as one of the UK's key regional airports and a significant generator of business and commerce in Hampshire. Over £5m will be invested during the coming year on new airport facilities.

Southampton International Airport continually ranks highest for customer service amongst all BAA UK airports and it is this high level of customer service which continues to attract new airlines and routes to the airport. Flybe have recently announced a further expansion to their network to include La Rochelle and Perpignan and the airport welcomes First Choice Holidays flying to Faro.

RESULTS AND DIVIDENDS

The profit for the year before taxation amounted to £6.0 million (2003: £2.7 million).

The directors do not recommend the payment of a dividend (2003: £Nil).

The retained profit for the year of £3.9 million (2003: £1.7 million) has been transferred to reserves.

REPORT OF THE DIRECTORS (continued)

BOARD OF DIRECTORS

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

R Cato	Chairman
D J Cumming	Managing Director
M Clasper	
D G Dalgleish	
J Fletcher	
D S Garrood	appointed 2 February 2004
R D Herga	Alternate to M Clasper

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 14 days purchases outstanding at 31 March 2004 (2003: 26 days) based on the average daily amount invoiced by suppliers during the year ended 31 March 2004.

ECONOMIC AND MONETARY UNION

An outline implementation strategy for the introduction of the Euro if and when the UK elects to join the EMU has been developed and is under continual review. It is too early to estimate the costs to the Company of the UK joining the Euro, however the Company continues to ensure that new systems being introduced to the business are Euro compliant.

The Company's policy is that while the UK remains outside of the Euro and sterling is floating freely the Company will:

- Treat the Euro as another foreign currency
- Raise invoices and require settlement in sterling
- Settle liabilities according to the currency of the contract

REPORT OF THE DIRECTORS (continued)

AUDITORS

PricewaterhouseCoopers LLP were appointed as auditors in place of Deloitte and Touche on 7 October 2003. As a resolution has been passed to dispense with the obligation to appoint auditors annually, PricewaterhouseCoopers LLP shall be deemed to be re-appointed as auditors 28 days after the accounts are sent to the sole member.

By order of the Board

Martin Lewis

M B Lewis
Company Secretary

26 May 2004

Registered Office:
130 Wilton Road
London
SW1V 1LQ

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 the system of internal control, 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.

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

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report and statement of directors' responsibilities.

Basis of audit opinion

We conducted our audit in accordance with 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.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 March 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow

26 May 2004

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2004

	Note	2004 £'000	2003 Restated (see note 1) £'000
Revenue – continuing operations	2	20,609	13,419
Operating costs	3	(14,131)	(10,372)
Operating profit – continuing operations		6,478	3,047
Net interest payable	5	(508)	(333)
Profit on ordinary activities before taxation		5,970	2,714
Tax on profit on ordinary activities	6	(2,086)	(981)
Retained profit on ordinary activities after taxation for the financial year	13	3,884	1,733

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Profit for the financial year		3,884	1,733
Unrealised revaluation surplus	13	5,664	682
Total recognised gains and losses relating to the year		9,548	2,415

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Profit for the financial year	13	3,884	1,733
Other net recognised gains and losses relating to the year		5,664	682
Net addition to shareholders' funds		9,548	2,415
Opening shareholders' funds		47,748	45,333
Closing shareholders' funds		57,296	47,748

BALANCE SHEET AT 31 MARCH 2004

	Note	2004 £'000	2003 £'000
FIXED ASSETS			
Tangible assets	7	71,284	58,936
CURRENT ASSETS			
Stocks	8	121	195
Debtors	9	3,591	1,792
TOTAL CURRENT ASSETS		3,712	1,987
CREDITORS: amounts falling due within one year	10	(12,342)	(8,217)
NET CURRENT LIABILITIES		(8,630)	(6,230)
TOTAL ASSETS LESS CURRENT LIABILITIES		62,654	52,706
Provisions for liabilities and charges	11	(5,358)	(4,958)
NET ASSETS		57,296	47,748
CAPITAL AND RESERVES			
Called up share capital	12	40,000	40,000
Revaluation reserve	13	12,533	6,869
Profit and loss account	13	4,763	879
EQUITY SHAREHOLDERS' FUNDS		57,296	47,748

These financial statements were approved by the Board of Directors on 26 May 2004 and signed on behalf of the Board.

D J Cumming
Managing Director

D G Dalgleish
Finance Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

1. ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with all applicable United Kingdom accounting standards.

In addition,the accounting policy for CAA navigation charges has been amended and the prior period results have been restated accordingly. For further details see note 2.

Revenue

Revenue comprises:

- Airport and other traffic charges: the invoiced value of sales from airport activities net of value added tax;
- Property and operational facilities: revenues from property letting, usage charges for operational systems and other invoiced sales, net of value added tax; and
- Retail: concession rentals from airport retailers due and agreed, net of value added tax.

Revenue is recognised in accordance with Financial Reporting Standard 5 application note G.

Fixed assets

(i) Operational assets

Terminal complexes, airfield assets, plant and equipment, fixtures and fittings and Group occupied properties are stated at historical cost less accumulated depreciation. Assets in the course of construction are stated at historical cost less provision for impairment and assume 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.

(ii) 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 by the directors and at least once every five years by external valuers. 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. Profits are recognised on completion.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

1. ACCOUNTING POLICIES (*continued*)

Fixed assets (continued)

(ii) Investment properties (continued)

In accordance with SSAP No. 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.

(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 60 years
• Terminal fixtures and fittings	5 - 20 years
• Airport plant and equipment:	
• baggage systems	15 years
• screening equipment	7 years
• lifts, escalators, travelators	20 years
• other plant and equipment including runway lighting and building plant	5 - 20 years
• 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	3 - 7 years

A full review of airport operating asset lives was completed during the year. The lives of individual assets have been amended to reflect more realistic useful lives. This change has not had a material impact on the current year or prior year results.

Capitalisation of interest

Interest payable is charged as incurred except where the borrowing finances tangible fixed assets in the course of construction. 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 ready for use. It is charged to the profit and loss account as depreciation over the life of the relevant asset.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

1. ACCOUNTING POLICIES (continued)

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.

Deferred taxation

In accordance with FRS 19, 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.

Leases

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

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Pensions

All employees are employed directly by BAA plc, the Company's ultimate parent undertaking, and are entitled to join the BAA plc defined benefit pension scheme. The Company is recharged the relevant amount of staff costs, including pension service costs. Consequently the Company does not account for the BAA plc pension scheme under FRS 17. Details of the BAA plc pension scheme can be found in the BAA plc annual Financial Statements.

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 2004

2. SEGMENTAL ANALYSIS

Revenue	2004 £'000	2003 restated £'000
Airport and other traffic charges	8,834	6,721
Retail	4,875	2,672
Property and operational facilities	1,279	1,014
Other	5,621	3,012
	20,609	13,419

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.

During the year the accounting policy for the treatment of CAA navigation charges has been amended. These charges have been accounted for as a reduction in income, having been previously treated as an operating cost. In the Directors' opinion, this accounting treatment more fairly reflects the nature of these transactions. Prior year figures have been restated to reflect this change resulting in a reduction of revenue by £1.3m. There is no impact on operating profit.

3. OPERATING COSTS FROM CONTINUING OPERATIONS

	2004 £'000	2003 restated £'000
Staff costs:		
Wages and salaries	4,303	3,578
Social security costs	335	239
Pension costs	661	566
Other staff related costs	438	356
	5,737	4,739
Retail expenditure	5	17
Depreciation	1,358	1,320
Maintenance expenditure	1,178	655
Rent and rates	582	602
Utility costs	352	284
General expenses	4,968	2,587
Other intra-group charges	203	168
	14,383	10,372
Profit on disposal of tangible fixed assets	(252)	-
	14,131	10,372

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

3. OPERATING COSTS FROM CONTINUING OPERATIONS (continued)

	2004	2003
Operating costs include:	**£'000**	**£'000**
Training expenditure	109	103
Rentals under operating leases		
- Hire of plant and machinery	7	18
- Other operating leases	14	17
Auditors' remuneration		
- Audit fees	21	10
Legal and other professional fees	304	177

Employee information

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

The average number of employees of BAA plc engaged in the operation of Southampton International Airport during the year was 177 (2003: 153).

As announced on 30 July 2001, BAA plc adopted FRS 17 Retirement Benefits and, at that time, adjusted the management charge to its airport subsidiaries to reflect the full service cost of pension provision together with the cost of benefits relating to past service as calculated under FRS 17.

In 2004, wages and salaries costs include a recharge of £1,000 (2003: £20,000) 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.

Other employee information including disclosure relating to FRS 17 and BAA plc's pension schemes is disclosed in the financial statements of BAA plc.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

4. DIRECTORS' EMOLUMENTS

	2004 £'000	2003 £'000
Directors' emoluments		
(excluding pension contributions and awards under share option schemes and other long term incentive schemes)	217	194
Pension contributions	21	-
	238	194

Number of directors who:	2004 No.	2003 No.
· are members of a defined benefit pension scheme	6	5
· exercised share options	3	2

M Clasper was also a director of BAA plc during both financial years and his remuneration is paid by BAA plc and disclosed in its financial statements. The directors do not believe it is possible to apportion this to individual companies within the Group based on services provided.

Two of the directors were directors of Gatwick Airport Limited and their remuneration is shown in that Company's financial statements.

Two directors did not receive any emoluments in their capacity as directors of the Company.

	2004 £'000	2003 £'000
Highest paid director's remuneration		
Aggregate of emoluments and awards under long-term incentive schemes (excluding pension contributions, share options, gains and awards in the form of shares)	140	129
Highest paid director's pension		
Accrued pension	67	63

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

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 2003 (or date of appointment if later)	31 March 2004	1 April 2003 (or date of appointment if later)	Granted during the year	Cancelled during the year	Exercised during the year	31 March 2004
R Cato	2,200	3,960	179,862	46,861	-	1,687	225,036
D J Cumming	7,601	6,954	111,344	19,663	-	1,013	129,994
D G Dalgleish	1,596	2,440	87,134	22,927	-	844	109,217
J Fletcher	8,995	9,112	21,598	3,433	-	-	25,031
D S Garrood	-	-	-	-	-	-	-
R D Herga	3,476	1,806	104,705	28,288	-	844	132,149

Included in the shares above, R Cato has a non-beneficial interest in 440 shares both at the beginning and end of the financial period.

In addition, the interests of the directors holding office at the year end in the ordinary shares of BAA plc held under the BAA Deferred Annual Bonus Plan ("DAB") are set out below:

	1 April 2003 (or date of appointment if later)		31 March 2004	
	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
R Cato	7,065	11,774	10,815	12,533
R D Herga	1,891	2,919	3,557	5,742

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 2004

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 2003	31 March 2004
Number of shares held	8,534,953	8,052,520

The number of shares held by the BEST, in which the executive directors were interested, had reduced to 7,976,979 as at 17 May 2004.

The interests of M Clasper 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.

5. NET INTEREST PAYABLE

Interest payable	2004 £'000	2003 £'000
Payable to ultimate parent undertaking:		
On current loans	(513)	(333)
Interest capitalised	5	-
Net interest payable	(508)	(333)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 £'000	2003 £'000
United Kingdom Corporation tax		
Current at 30% (2003: 30%)	1,715	592
- prior year adjustment	(29)	107
Total current tax charge	1,686	699
Deferred - origination and reversal of timing differences		
- current year	156	249
- prior year adjustment	244	33
	2,086	981

Reconciliation of tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 30% (2003: 30%). The actual tax charge for the current and prior years is less than 30% for the reasons set out in the following reconciliation:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	5,970	2,714
Tax on profit on ordinary activities at 30%	1,791	814
Factors affecting charge:		
Permanent differences	80	28
Capital allowances for the year in excess of depreciation	(161)	(240)
Capitalised interest	(2)	-
Other short term timing differences	7	(10)
Adjustments to tax charge in respect of prior years	(29)	107
Current tax charge for the year	1,686	699

Other than unprovided deferred tax discussed in the paragraph below and note 11, there are no items which would materially affect the future tax charge.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Taxable gains will crystallise only if the property were sold without it being possible to claim rollover relief. The total amount of tax unprovided for is £3.6 million (2003: £1.7 million).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

7. TANGIBLE ASSETS

	Investment properties £'000	Terminal complexes £'000	Airfields £'000	Group occupied properties £'000	Plant, equipment & other assets £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation							
1 April 2003	18,490	8,006	25,649	4,443	13,295	453	70,336
Additions at cost	-	5	6,181	-	379	2,255	8,820
Transfers to completed assets	130	488	68	-	126	(812)	-
Interest capitalised	-	-	-	-	-	5	5
Disposals	-	-	(9)	(299)	(1,664)	-	(1,972)
Inter company transfers	-	-	-	-	341	-	341
Reclassifications	(114)	992	463	57	(1,398)	-	-
Revaluation	5,664	-	-	-	-	-	5,664
31 March 2004	24,170	9,491	32,352	4,201	11,079	1,901	83,194
Depreciation							
1 April 2003	-	1,125	1,942	750	7,583	-	11,400
Charge for the year	-	196	288	91	783	-	1,358
Disposals	-	-	(1)	(54)	(1,134)	-	(1,189)
Inter company transfers	-	-	-	-	341	-	341
Reclassifications	-	425	194	(6)	(613)	-	-
31 March 2004	-	1,746	2,423	781	6,960	-	11,910
Net book value							
31 March 2004	24,170	7,745	29,929	3,420	4,119	1,901	71,284
31 March 2003	18,490	6,881	23,707	3,693	5,712	453	58,936

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

7. TANGIBLE ASSETS (continued)

Valuation

Certain investment properties and land held for development were valued at open market value at 31 March 2004 by Drivers Jonas, Chartered Surveyors at £24.2 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 £5.7 million has been transferred to revaluation reserve.

Remaining group occupied properties, terminal complexes, airfield infrastructure, plant and equipment, and other assets, have been shown at historical cost.

Fully depreciated assets

Cost and accumulated depreciation include £3.4 million (2003: £3.2 million) in respect of fully depreciated assets still in use.

Capitalised interest

Included in the cost of assets after depreciation are interest costs of £0.5 million (2003: £0.5 million).

Historical cost

The historical cost of investment properties and land held for development at 31 March 2004 was £11.6 million (2003: £11.6 million).

Leased assets

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

	2004 £'000	2003 £'000
Cost or valuation	24,170	18,490
Accumulated depreciation	-	-
Net book amount	24,170	18,490

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

8. STOCKS

	2004 £'000	2003 £'000
Goods for resale	-	76
Raw materials and consumables	121	119
	121	195

The replacement cost of raw materials and consumables at 31 March 2004 and 2003 was not materially different than the amount at which they are included in the accounts.

9. DEBTORS

	2004 £'000	2003 £'000
Due within one year:		
Trade debtors	2,706	1,647
Amounts owed by group undertakings	98	52
Other debtors	784	89
	3,588	1,788
Due after more than one year:		
Other debtors	3	4
	3,591	1,792

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £'000	2003 £'000
Trade creditors	1,970	2,058
Capital creditors	1,503	160
Amount owed to ultimate parent undertaking	7,833	5,671
Corporation tax payable	806	267
Other creditors	-	52
Deferred income	230	9
	12,342	8,217

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

11. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Tax £'000
1 April 2003	4,958
Charge to profit and loss account	400
31 March 2004	5,358

Analysis of the deferred tax balances are as follows:

	2004 £'000	2003 £'000
Excess of capital allowances over depreciation	5,387	4,975
Other timing differences	(29)	(17)
	5,358	4,958

	Unprovided 2004 £'000	2003 £'000
Surplus on revaluation of tangible fixed assets	3,563	1,732

The deferred taxation liabilities have been computed at the expected long term rate of 30% (2003: 30%).

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

12. CALLED UP SHARE CAPITAL

	2004 £'000	2003 £'000
Authorised		
50,000,000 ordinary shares of £1 each	50,000	50,000
Called up, allotted and fully paid		
40,000,002 ordinary shares of £1 each	40,000	40,000

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

13. RESERVES

	Profit and loss account £'000	Revaluation reserve £'000	Total £'000
1 April 2003	879	6,869	7,748
Retained profit for financial year	3,884	-	3,884
Revaluation surplus	-	5,664	5,664
31 March 2004	4,763	12,533	17,296

14. FUTURE COMMITMENTS

Capital

Future capital expenditure contracted commitments amount to £Nil (2003: £135,000).

Commitments under operating leases

At 31 March 2004, the Company was committed to making the following payments during the next year in respect of operating leases:

	Other leases 2004 £'000	Other leases 2003 £'000
Leases which expire:		
- within two to five years	4	19

15. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

The ultimate parent undertaking 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2004

16. 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.

02431858

AIRPORTS ACT 1986

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

YEAR ENDED 31 MARCH 2004

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:	Auditors' Special Report

The information in Statements A, B and C attached, was approved by the Board of Directors on 7th September 2004.

Directors: .... Date: 7th September 2004
D J Cumming

.... Date: 7th September 2004
M Ewing

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

STATEMENT A

Operational/Non-operational trading results in accordance with Conditions 3 and 4 for the year ended 31 March 2004.

	Income £'000	Expenditure £'000	Profit before tax and interest £'000
Operational activities			
Airport charges	7,686	7,237	449
Other operational activities	12,923	6,894	6,029
Total operational activities	20,609	14,131	6,478
Non operational activities	-	-	-
Total	20,609	14,131	6,478

These disclosures have been prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets and are in accordance with the accounting policies disclosed within the Southampton International Airport Limited financial statements for the year ended 31 March 2004.

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

STATEMENT B

Broad principles of cost allocation in accordance with Conditions 2 and 3 for the year ended 31 March 2004.

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 the 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.

SOUTHAMPTON INTERNATIONAL AIRPORT LIMITED

PERMISSION TO LEVY CHARGES

STATEMENT C

Disclosure transactions in accordance with Condition 1 for the year ended 31 March 2004.

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

The Company's funding is met by an inter-company account with BAA plc. Interest on the 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 2004 was 5.5%

During the year ended 31 March 2004, the aggregate minimum borrowing was £5.7m at 1st April 2003. The aggregate maximum borrowing was £12.8m at 30th April 2003.

Other transactions

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

STATEMENT D – INDEPENDENT AUDITOR'S REPORT

Report in respect of the Accounts Conditions Statements for Southampton International Airport Limited ("the Airport")

We have reviewed the Accounts Conditions Statements for Southampton International Airport Limited for the year ended 31 March 2004 ("the Statements") in accordance with our engagement letter between the Civil Aviation Authority ("the CAA") and Southampton International Airport Limited ("the Airport") of 16 August 2004 ("engagement letter"). A copy of the Statements, which is the responsibility of the directors, is attached to this report.

Our report is made solely to the Airport and the CAA in accordance with our engagement letter. Our work has been undertaken so that we might report to the Airport and the CAA those matters we are required to state to them in this report in accordance with the engagement letter and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Airport and the CAA for our work, for this report or for the opinions we have formed.

We carried out the following procedures:

- Obtained a copy of the Accounts Conditions Statements as prepared by the Airport's directors;

- Obtained a copy of the audited Financial Statements of the Airport for the year under review, formally approved by the Airport's directors and, agreed the total amount of income, expenditure and profit before interest and tax to Statement A of the Accounts Conditions Statements;

- Identified and understood the process in place by which the Airport's directors compiled the Statements and the factors they considered in compiling the Statements;

- Reviewed the application of the Principles of Cost Allocation in Accounts Condition Statement B, used in the preparation of Statement A;

- Verified that the financial information provided in Accounts Condition Statements A and C has been accurately extracted from the Airport's books and records;

- Recalculated, where appropriate, any calculations in the Statements A,B and C ;

- Verified the allocations of income, expenditure and profit before interest and tax to Statement B ;

- Ensured that any necessary amendments to the Statements arising from the above work were correctly reflected in the final Statements approved by the Directors

Based on the procedures carried out:

- the information presented in the Statements has been properly extracted from the books and records of the Airport, and is arithmetically accurate;

- the Statements have been compiled in accordance with the process established by the Airport's directors for preparing the Statements.

We are the current auditors of the Airport. We do not accept, or assume responsibility to anyone other than the Airport and the Airport's members as a body, for our audit work, for our audit report(s) or for the opinions we have formed. The statutory audit is undertaken in order that we might report to the Airport's members, as a body, in accordance with Section 235 of the Companies Act 1985 on whether the financial statements of the Airport, which are the sole responsibility of the Airport's directors, give a true and fair view of the state of affairs of the Airport as at the end of the relevant financial year and for no other purpose.

Third party

Our report is addressed to you and is provided solely for your use and benefit and only in connection with the purpose set out in the engagement letter. Unless required by law, you shall not provide our report, or a copy thereof, in whole or in part, to any other person or party or refer to us or the Services without our prior written consent, which we may at our discretion grant, withhold or grant subject to conditions. In no event, regardless of whether consent has been provided, shall we assume any liability or responsibility to any third party to which any report or letter is disclosed or otherwise made available.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
London

13.09.2004