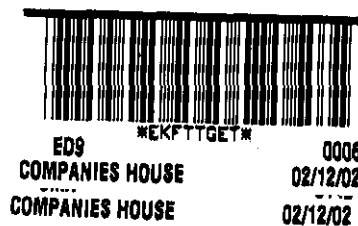


The Manchester Airport Group PLC
Directors' report and financial statements
for the year ended 31 March 2002

Registered Number: 4330721



Amended

The Manchester Airport Group PLC

Directors' report and financial statements

for the year ended 31 March 2002

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The Manchester Airport Group PLC

Chairman's Statement

The Manchester Airport Group PLC has concluded a successful first full year of operation. Group operating profit, before restructuring costs, was £62 million, representing a 22 per cent increase on the previous year. Turnover has increased by 21 per cent to £321 million.

This much-improved performance reflects the contributions from East Midlands and Bournemouth International Airports and supports our strategic decision to acquire these businesses.

All four airports in the Group – Manchester, East Midlands, Humberside and Bournemouth - overall reported growth during the year under review. However, the tragic events of 11 September had a severe impact on the second half of the financial year, turning steady growth into decline. Passenger numbers fell dramatically, with international and domestic scheduled services at Manchester being particularly badly affected, and it was only in the later months of 2002 that we began to see any real signs of sustained recovery.

Despite this setback, our vision for the Group remains clear. We aim to be a leading operator of high quality airports serving the people and businesses of the regions in which our airports are located. In simple terms, we want each of our airports to be the first choice for those who live and work in their catchment area.

In pursuit of this vision we have kept our focus on creating the best possible experience for the 22.2 million passengers who passed through our terminals. We make it a priority to listen to our customers, ensuring that we understand their needs and responding to their concerns.

We have continued to be imaginative and innovative in the range of services we provide to passengers as they pass through our terminal buildings. We provide a range of quality shops and catering outlets to enhance customers' experience of travelling through our airports and continue to provide customers with the up-to-date information they require before arriving at our airports.

Through the Freedom to Fly campaign - a coalition of UK air users, trade and industry, trades unions, airlines and airports - we are actively supporting the case for sustainable growth in Britain's national aviation capacity. The importance of planning ahead cannot be overstated and we look forward to the Government's White Paper on aviation due out in 2003.

Partnership has been a key element of our excellent performance in 2001-2. Partnership with our airline and tour operator customers has led to a wider range of destinations and frequency of services on offer to passengers. And partnership with the service providers in our airports ensure the best possible levels of service in all areas of our operations, from shopping to baggage handling.

Restructuring of the Group undertaken in the last financial year is beginning to show encouraging results. By allowing each business unit to focus clearly on its area of expertise, we are pursuing the drive for improved efficiency and reduced costs across all areas of our business and we look forward to seeing further benefits in the months and years ahead.

As we move forward we continue to face uncertainties. As a global service provider, the aviation industry is a good barometer of economic confidence. As Britain's second largest airport operating group we have an important contribution to make in helping the industry through this difficult patch. We must continue to vigorously attack our costs and ensure that we offer all of our customers the most competitive terms possible on which to base their operations from our airports.

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Our staff are the key to dealing effectively with these challenges and uncertainties. Although the restructuring and changes we have gone through this year have impacted upon our employees, these changes have been essential to build a vibrant and sustainable business that offers more opportunity for everyone in the Manchester Airport Group.

Councillor Peter Roberts

Chairman

12 September 2002

The Manchester Airport Group PLC

Chief Executive's Review

The challenging operating environment of the past year is fully outlined in the Chairman's statement. It can fairly be described as a year of two halves: the first half, one of continuing growth; the second, of facing up to the consequences of cataclysmic events in America that brought the aviation industry to its knees.

As awful and unexpected as the events of 11 September were, they brought in to sharp focus a fundamental fact of business life today. Change is the only certainty. We may not welcome it, but to survive and prosper we must embrace it.

Airports are clearly not immune from the effects of global difficulties. Across the Manchester Airport Group we reacted well to these tragic events. Discussions were held with all of our airline customers whose business had been impacted by falling passenger numbers and we did what we could to help.

These events occurred at a time when the market was already going through a period of considerable flux as newly emerging low cost carriers started to bite into the markets of longer-established airlines. Price competition was becoming increasingly fierce and 11 September added further urgency and impetus to our drive to reduce costs and maintain a competitive position with our customers.

After 11 September passenger numbers fell sharply, particularly at Manchester. Notwithstanding this, Manchester ended the year with 19.03 million passengers against 18.63 million the year before, but still 3 per cent down on expectations. Our projections for the year 2002-03 show a decline to the 2001 level and this represents a second year of setback in growth. Cargo traffic out of Manchester also levelled off at around 124,000 tonnes, despite some exciting new services to the Far East.

East Midlands has no transatlantic passenger traffic and a much smaller domestic scheduled network than Manchester. As a result it held up well after 11 September. Future passenger growth here is likely to be much more dependent on the success of low-cost scheduled carriers, such as Go-Easyjet and bmi baby, as well as a continuing increase in the amount of chartered traffic.

A further success story at East Midlands continues to be its strong and growing position as Britain's leading cargo airport. World-class carriers such as TNT, UPS and DHL have all invested heavily in their operations at East Midlands. The airport's strategic location, with excellent motorway links to all parts of the country, make it an ideal base.

Acquired in 1999, Humberside Airport made good progress during the past year. Although passenger numbers fell slightly, the business has remained resilient as a result of increased charter traffic and through the introduction of new scheduled services to destinations such as Edinburgh.

At Bournemouth, the new Ryanair service to Frankfurt Hahn commenced operation in February. This service is expected to boost passenger numbers by up to 100,000 each year. A new daily service to Alderney was also introduced and is already proving popular.

The new group structure came into effect on 21 June 2001 resulting in five trading divisions:

- Manchester Airport plc is Britain's third busiest airport and offers 170 direct destination choices from 90 airlines.
- Manchester Airport Aviation Services is responsible for essential services at Manchester, such as baggage handling, security, car parks, engineering and the fire service

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- Manchester Airport Developments Limited is responsible for land and property acquisitions and disposals and management of the capital programme at all four airports.
- Manchester Airport Regional Airports manages East Midlands, Humberside and Bournemouth Airports.
- Manchester Airport Ventures Limited manages airport advertising, airport petrol stations, motor transport and a design and print business.

This new structure led directly to a re-organisation of the senior management function to create a leaner, more cost-effective organisation. A number of redundancies resulted from these changes.

A more wide-reaching change was set in motion at the beginning of the year when the Group began a drive to increase efficiency and reduce costs. This need to become more competitive had major implications on the security section of Manchester Airport. Despite the ensuing strike action, the operation of the airport was unaffected and a resolution of the dispute has since been achieved.

The performance of our Regional Airports business over the past year validated our decision to acquire these additional assets. With them have come challenges of integration as we create Britain's second largest airport group. Our experience has shown that strategic acquisition of other airports can add value to the business.

The year 2001-2 has been one of the most challenging in our history. As we look forward we can see that the business environment continues to get more competitive and many more challenges lie ahead. These will lead to further change as we shape our business into a competitive, world-class operation.

But it is essential for all our stakeholders - employees, airline customers, passengers, and our shareholders – that we continue to meet these challenges.

I recognise that we have had to make some painful decisions in the past year and will undoubtedly have to do so again in the future. However, it is in the interests of all stakeholders that we get our business on a solid footing so that we can all prosper in the future.

Geoff Muirhead

Group Chief Executive
12 September 2002

The Manchester Airport Group PLC

Finance Director's Report

Review of the year ended 31 March 2002

Group operating profit, before restructuring costs, was £62 million representing an increase of 22% on the prior year. This significant growth was driven primarily by the impact of East Midlands and Bournemouth Airports, both of which were acquired on 28 March 2001. The full year results of East Midlands and Bournemouth Airports have been consolidated for the first time during the year ended 31 March 2002.

The following table presents the Group's trading results by business area and shows the impact of East Midlands and Bournemouth Airports, which contributed an additional £16.1 million to operating profits during the year. However, the acquisition of the two airports was funded by £245 million of bank borrowings, which has subsequently increased the net interest charge.

	2002 £'000	2001 £'000	% Change
Turnover			
Manchester Airport	242,038	231,712	4.4%
East Midlands Airport	39,077	179	n/a
Bournemouth Airport	10,014	58	n/a
Humberside Airport	7,419	7,621	-2.7%
Total airport businesses turnover	298,548	239,570	24.6%
Other commercial activities net of consolidation adjustments	22,816	25,177	-9.4%
TOTAL GROUP TURNOVER	321,364	264,747	21.3%
EBITDA¹			
Manchester Airport	94,091	87,038	8.1%
East Midlands Airport	19,611	1	n/a
Bournemouth Airport	1,713	-	n/a
Humberside Airport	1,257	1,658	-24.2%
Total airport business EBITDA¹	116,672	88,697	31.5%
Other commercial activities net of consolidation adjustments	6,967	11,568	-39.8%
TOTAL GROUP EBITDA¹ BEFORE RESTRUCTURING COSTS	123,639	100,265	23.3%
Depreciation charge and amortisation of goodwill	(61,598)	(49,591)	24.2%
Underlying operating profit	45,947	50,673	-10.4%
Operating profit attributable to East Midlands & Bournemouth (net of goodwill)	16,094	1	n/a
GROUP OPERATING PROFIT BEFORE RESTRUCTURING COSTS	62,041	50,674	22.4%
Restructuring costs	(19,918)	-	n/a
PROFIT BEFORE INTEREST AND TAXATION	42,123	50,674	-16.9%
Net interest payable (including income from fixed asset investments)	(39,739)	(14,016)	183.5%
PRE TAX PROFITS	2,384	36,658	-93.5%

Notes:

(1) EBITDA is defined as earnings before interest, taxation, depreciation and amortisation

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Passenger volumes and turnover

The tragic events of 11 September 2001 adversely affected demand for air travel in the second half of the financial year and consequently passenger volumes were below expectations. The largest downturn in demand was suffered by the international and domestic scheduled sectors at Manchester Airport, which declined by over 6% in the seven months to 31 March 2002. Notwithstanding this decline and excluding the impact of East Midlands and Bournemouth Airports, underlying passenger numbers remained slightly ahead of the prior year as is shown below.

	2002 No '000	2001 No '000	% Change
Manchester Airport	19,031	18,628	2.2%
East Midlands Airport	2,420	n/a	n/a
Bournemouth Airports	284	n/a	n/a
Humberside Airport	440	457	-3.7%
TOTAL PASSENGERS	22,175	19,085	16.1%*

*Note: * Underlying passenger growth is 2% after excluding the effect of East Midlands and Bournemouth Airports*

This underlying volume growth resulted in a £10 million (4%) increase in airport turnover, which was achieved under competitive market conditions and with continued pressure on aviation prices. East Midlands and Bournemouth Airports contributed additional turnover of £49 million, resulting in overall airport turnover of almost £300 million (2001: £240 million).

Revenues associated with other commercial activities, however, fell in 2002. This was primarily due to an expected decline in some external non-core activities.

EBITDA before restructuring costs

After removing the impact of East Midlands and Bournemouth Airports, the Group's EBITDA increased by £2.1 million (2%) in 2002, with the airport business generating growth of £6.7 million (7.5%) offset by a decline of some £4.6 million in other commercial activities.

The airport businesses' cost base has increased by £3.4 million during the year, the majority of which represented one-off corporate restructuring support costs of £3 million. In the aftermath of 11 September, insurance premia rose significantly, the full year effect of which will be suffered in 2002/03.

Depreciation and amortisation of goodwill

The Group's depreciation charge and amortisation of goodwill increased by £12 million in 2002, of which £5.2 million was attributable to East Midlands and Bournemouth Airports. The remainder represents an uplift in depreciation following the revaluation of Manchester Airport's operational assets on 31 March 2001 and depreciation on Runway 2, which opened in February 2001.

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Restructuring costs

Following a review of the Group's structure and a benchmarking of the operating cost base during 2001, new operational structures and cost savings initiatives were implemented throughout the Group. As part of this exercise a detailed review was undertaken of Manchester Airport's security, management and administrative support functions, which resulted in exceptional restructuring costs of some £20 million, of which £5.1 million had been paid by the year end.

OTHER ASPECTS OF THE ACCOUNTS

Accounting policies

The Group adopted two new accounting standards this year. FRS 19 "Deferred Taxation" has introduced major changes in accounting for deferred taxation and is discussed in further detail below. The Group has also applied FRS 18 "Accounting Policies", which has not resulted in any material changes to accounting policies or their application.

FRS 17 "Retirement Benefits" has introduced significant changes in accounting for pension schemes and the disclosure of pension scheme information. This standard will particularly affect the financial statements of those companies that have defined benefit schemes. Full implementation of this standard has been deferred by the Accounting Standards Board as it is subject to harmonisation with international accounting. However, transitional disclosures are required this year and are presented in Note 37 to the financial statements.

Further information on changes to accounting policies is contained within the statement of accounting policies on pages 31 to 35 below.

Interest and investment income

Net interest payable (offset by investment income) increased substantially in 2002 from £14 million to £39.7 million.

Interest payable and similar charges increased from £25.5 million to £43.4 million. This reflects the increase in bank borrowings of £245 million. Based upon current interest rates, the subsequent uplift in interest payable amounts to some £18 million per annum. Approximately 55% of the £245 million debt raised has fixed interest rates, which is in accordance with our policy on management of interest risk policy as disclosed on page 11 below.

Interest receivable and similar income fell by £2.6 million. Income in 2001 was significantly enhanced by some £4.1 million realised through the sale of current asset investments.

Furthermore, in 2001 non-recurring profits from the sale of fixed assets investments to the value of £5.3 million were realised by the Group.

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Taxation

	2002 £'000	2001 £'000
Profit on ordinary activities before taxation	2,384	36,658
Taxation charge for the year	(6,138)	(11,766)
Post tax (loss) / profit	(3,754)	24,892
Effective rate of tax	257%	32%

The tax charge during the year was £6.1 million, which represents an effective rate of tax of 257% based on the £2.4 million pre tax profits. The primary reason for this high effective rate of tax is depreciation on revalued assets. As mentioned above, as is consistent with the Group's accounting policy, operational fixed assets were revalued on 31 March 2001, resulting in an increased depreciation charge (when compared to the historical cost charge) of some £13.8 million.

In addition, approximately £4.8 million of the restructuring costs charged to profit and loss in the year will not be tax deductible until 2002/03. Adjusting for these two items alone reduces the effective rate of tax to 29%. A detailed reconciliation is presented in Note 9 to these financial statements.

The introduction of FRS 19 means that all timing differences that have originated but not reversed by the balance sheet date have to be provided for in the accounts. The Group has adopted a policy of discounting its deferred tax liabilities. The effect of this policy is presented in Note 29 to these financial statements. In summary the Group's undiscounted deferred tax liabilities as at 31 March 2002 were £31.3 million, which reduces to £1.6 million after discounting.

Cash flow

The Group generated cash of £114.2 million (2001: £106.3 million) from operating activities before payment of net interest, reflecting the strong underlying cash generation of the business.

Interest, taxation and dividends consumed £59 million (2001: £30.1 million) leaving net cash inflows of £55.2 million (2001: £76.2 million) before capital expenditure and financing. This has been applied to investment in fixed assets and subsidiary undertakings of £44.3 million (2001: £287.7 million) leaving a balance of £11 million (2001: £211.5 million outflow), which broadly represents the movement in net borrowings.

During the year a revolving credit facility of £130 million was arranged with the Co-operative and Allied Irish Banks. As at the year end £95 million had been drawn, which was used to re-pay a bridging loan taken out to part fund the acquisition of East Midlands and Bournemouth Airports.

Balance sheet

Despite the loss for the year of £11.95 million (2001: profit £16.9 million), shareholders' funds increased by £3.6 million following a revaluation of the investment properties at East Midlands and Bournemouth Airports, the value of which increased by £15.6 million. These assets are revalued each year by Drivers Jonas, independent Chartered Surveyors.

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Treasury and financial instruments

The most significant risks faced by the Group in relation to its financial instruments are interest rate risk and liquidity risks. The Board reviews and agrees policies for managing each of these risks and these policies are summarised below. The central treasury team manages interest rate and liquidity risks. This department is focused upon monitoring working capital, managing external funding, capital expenditure requirements and investing excess cash to maximise returns.

It is the Group's policy to raise finance for its operations through a range of financial instruments, consisting primarily of fixed and floating rate loans and finance leases. To manage the potential exposure to interest rate fluctuations, the Group maintains a proportion of its borrowings at a fixed rate of interest and where appropriate, uses interest rate swap arrangements. As set out in Note 28 to these financial statements, after taking into account interest rate swap arrangements, 69% (2001: 69%) of total financial liabilities have fixed interest rates.

The Group is required to maintain a level of cash within the business to ensure that it complies with certain regulatory liquidity ratios. The treasury team monitors the Group cash position and short-term cash requirements on a daily basis. Excess cash is invested primarily in fixed rate short-term deposit accounts.

It is the Group's policy to maintain a balance between continuity of funding and flexibility. The repayment profile of its financial liabilities is spread over the longer term. As set out in Note 27, 66% (2001: 68%) of total borrowings were due to mature in more than five years, which includes 40% (2001: 45%) of total debt that is due for repayment in over ten years.

Both short and long-term cash forecasts, identifying the liquidity requirements of the Group, are produced on a regular basis. The Directors closely monitor the liquidity position of the Group, with additional financing requirements being met primarily through the negotiation of additional bank facilities. Undrawn committed bank facilities as at 31 March 2002 amounted to £40 million, of which £35 million is due to expire on 30 June 2004.

Philip Ridal

Group Finance Director
12 September 2002

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Directors' report for the year ended 31 March 2002

The Directors present their report and the audited financial statements of the Group for the year ended 31 March 2002.

Principal activities

The Manchester Airport Group PLC, the new Group holding company, was incorporated on 28 November 2001 and remained dormant until 28 March 2002 when the Company issued shares in exchange for the entire issued share capital of Manchester Airport PLC. These shares were issued at a value equal to that originally paid on subscription for the issued share capital of Manchester Airport PLC.

Immediately after this transaction, Manchester Airport PLC paid a dividend in specie to The Manchester Airport Group PLC amounting to £3,217,000 in respect of its investments in Manchester Airport Ventures Limited, Manchester Airport Aviation Services Limited and Manchester Airport Developments Limited. The investments of The Manchester Airport Group PLC are disclosed in Note 16.

The principal activities of the Group during the year were the ownership, operation and development of airport facilities in the UK. The Group's revenues were derived primarily from aircraft and passenger handling charges, together with income from commercial outlets.

Results, review of business and future developments

The consolidated results for the year are set out on page 25 below.

The Group intends to continue the development of The Manchester Airport Group PLC as an operator of high quality airports and airport facilities, meeting the demand for air travel arising in the regions we serve, with a reputation for quality, value for money, and a sustainable approach to our development.

Detailed reviews of the Group's principal activities, results and future developments are provided in the Chairman's Statement, the Chief Executive's Review and the Finance Director's Report.

Dividends and transfers to reserves

The Directors recommend that a final dividend of £5,000,000 (2.45 pence per share) is declared. After taking account of these dividends, the loss for the year of £8,754,000 (2001: retained profit of £16,892,000) will be transferred to reserves.

The transfer of the shares of Manchester Airport PLC to the Company was made excluding a final dividend for the year ended 31 March 2002. Accordingly, £4,000,000 of the final dividend for the year will be paid directly from Manchester Airport PLC to the shareholders of the Company.

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Post year end events

On 11 April 2002 Manchester Airport PLC acquired the entire issued share capital of Ringway Developments PLC. The principal activity of Ringway Developments PLC is to provide and implement various development opportunities arising out of the growth of Manchester Airport. A wholly owned subsidiary of Ringway Developments PLC also owns and operates a hotel at Manchester Airport.

The total consideration payable is £14.1 million, subject to adjustment through a completion accounts mechanism. Of the total consideration, £12.3 million has been paid in cash with a further £1.8 million payable on 31 March 2003. Any further amounts payable to or from the Vendors under the completion accounts mechanism are due when the completion accounts are agreed and finalised in accordance with the sale and purchase agreement. Acquisition costs incurred prior to the year end on this transaction amounted to £182,000.

The Board of Directors

As at 31 March 2002, The Manchester Airport Group PLC Board had eleven directors including six Non-Executive Directors nominated by the local authority shareholders. The composition of the Board of Directors of The Manchester Airport Group PLC as at 31 March 2002 is set out as follows. All directors were appointed on 28 March 2002 with the exception of Mr G Muirhead and Ms R Burns who were appointed on the date of incorporation:

Councillor P Roberts	(Rochdale Borough Council)	Chairman
Councillor B Harrison	(Manchester City Council)	Deputy Chairman
Councillor HF Ridley	(Metropolitan Borough Council of Stockport)	
Councillor PRC Smith	(Wigan Borough Council)	
Councillor J Keller	(Manchester City Council)	
Councillor C Nangle	(Manchester City Council)	
Mr G Muirhead	Group Chief Executive	
Ms R Burns	Group Strategy Director	
Mr PM Ridal	Group Finance Director	
Ms M Salmon	External Non-Executive Director	
Mr JM Hancock	External Non-Executive Director	

Changes to the Board of Directors since the year end

Mr D Kennedy was appointed as an External Non-Executive Director on 9 April 2002.

On 13 June 2002 Councillor P Roberts resigned from the Board and Councillor R Howarth (Borough Council of Bolton) was appointed as Chairman of the Board.

Councillor HF Ridley retired from the Board on 13 June 2002 and was replaced by Councillor M Hunter (Metropolitan Borough Council of Stockport).

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Substantial shareholders

On 31 March 2002, the following held 5% or more of the Company's ordinary share capital.

	Number of ordinary shares	Percentage
The Council of the City of Manchester	112,353,999	55
The Borough Council of Bolton	10,214,000	5
The Council of the Metropolitan Borough of Bury	10,214,000	5
The Oldham Borough Council	10,214,000	5
The Rochdale Borough Council	10,214,000	5
The Council of the City of Salford	10,214,000	5
The Metropolitan Borough Council of Stockport	10,214,000	5
The Tameside Metropolitan Borough Council	10,214,000	5
The Trafford Borough Council	10,214,000	5
The Wigan Borough Council	10,214,000	5

Contracts of significance

Details of contracts of significance with the Council of the City of Manchester are set out in Note 38 to these financial statements.

Employment policy

The Group's employment policies are regularly reviewed and updated by the Board of Directors.

The Manchester Airport Group PLC provides services for a changing and diverse society and the Board of Directors considers that to provide the best services for our customers it is essential that the Group embraces diversity in the workforce. Accordingly, the Group has developed a Diversity Programme, which aims to ensure that these objectives are achieved.

The Manchester Airport Group PLC is committed to providing equality of opportunity to all employees and potential employees. The Group gives full and careful consideration to applications for employment from all people regardless of their sex, ethnic origin, nationality, sexuality, age, disability or religious beliefs, bearing in mind the respective aptitudes and abilities of the applicant concerned. This also applies to training and promotion within the Group.

In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Group as a whole.

The Manchester Airport Group PLC

The Group is constantly looking for ways to ensure that employees are able to participate and engage in the business. As part of the Trade Union recognition arrangements various employee fora exist for each business area. In addition there is a Group wide in-house newspaper, which is produced on a monthly basis and the employee suggestion and recognition scheme is currently under review. Business briefings are cascaded throughout the organisation to communicate key business and operational issues.

Policy and practice on payment of creditors

The Group's current policy concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU). For other suppliers the Group's policy is to:

- Settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- Ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- Pay in accordance with its contractual and other legal obligations.

The payment practice applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

The period of credit taken at 31 March 2002 was 35 days (2001: 35 days), which has been calculated in accordance with the average number of days between date of invoice and the payment of the invoice.

Charitable and political donations

Charitable donations made during the year totalled £266,209. It is the Group's policy not to make political contributions and accordingly none were made during the year.

Statement of directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group 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, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board



T Bowers

Secretary

For and on behalf of

Manchester Professional Services Limited

12 September 2002

The Manchester Airport Group PLC

Report on Corporate Governance

The Company is committed to high standards of Corporate Governance and has considered the principles and provisions of the Combined Code: Principles of Good Governance and the Code of Best Practice ("the Code"). In addition, the Company has considered the Turnbull guidelines set out in the document "Guidance for Directors on the Combined Code", the provisions of which are covered under the section headed "Internal Control" below.

COMPOSITION OF THE BOARD OF DIRECTORS

On 28 March 2002 the final phase of the implementation of a new corporate structure for the Manchester Airport group of companies was completed. This involved the creation of the Group Company, The Manchester Airport Group PLC. The Board of the Company comprises three Executive Directors and nine Non-Executive Directors, six of which are nominated and appointed by the local authority shareholders, the balance being made up of three External Non-Executive Directors. The current Board of Directors is set out on page 13 above.

The roles of the Chairman and Chief Executive are separate and clearly defined. Mr R Howarth (representative member of the Borough Council of Bolton) was appointed as the Non-Executive Chairman on 13 June 2002.

The Company considers that there is an adequate balance between Executive and Non-Executive Directors on the Board. The External Non-Executive Directors are all fully independent of management in the context of the Combined Code. These directors further enhance the composition of the Board and contribute extensive experience and judgement to the Board and the various Board Committees.

The Board has adopted a formal schedule of matters which are reserved to it for decision making and has delegated certain of its responsibilities to board committees, which all have clearly defined terms of reference. The Committees that have been formed are an Appointments Panel, a Remuneration and Review Committee and an Audit Committee, all of which provide Non-Executive Directors with an effective forum to enhance the governance of The Manchester Airport Group PLC. These committees are discussed in further detail below.

Directors receive timely and accurate information that allows them to carry out their role effectively, and have access to the advice and services of the company secretary if required. In addition, the Directors receive independent advice in relation to their duties where appropriate. The Board will meet formally at least eleven times a year and will also meet on additional occasions to consider specific business matters.

Appointments Panel

The Company considers that there should be formal and transparent procedures for the appointment of new directors to the Board. Accordingly, the Board has established an Appointments Panel to identify and recommend candidates for executive and non-executive appointments. The Appointments Panel, which is chaired by the Chairman of the Board of Directors, comprises the Non-Executive Directors, including the External Non-Executive Directors unless the Panel is dealing with the appointment of these directors.

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Remuneration and Review Committee

The Remuneration and Review Committee was established on 13 June 2002 and consists exclusively of Non-Executive Directors. The terms of reference for this committee will be formally agreed in October 2002. However, it is expected these will include:

- A review of the annual performance of Executive and External Non-Executive Directors of the Company and subsidiary companies and to report to the Shareholders on such performance; and
- Consideration and recommendation, on an annual basis, of the remuneration of Executive and External Non-Executive Directors of the Company and its subsidiary companies in accordance with their service contracts.

Prior to the establishment of this Committee, the remuneration of the Executive and External Non-Executive Directors was considered by the Appointments Panel.

RELATIONS WITH SHAREHOLDERS

The Board is committed to a proactive communications programme with its shareholders. A Shareholders' Committee has been formed to provide the shareholders with an effective forum to enable them to exercise strategic influence, monitor the performance of the Group and protect shareholder interests. All shareholders are represented on the Committee.

The Company presents information and documentation to the Shareholders' Committee annually on, *inter alia*, the following matters:

- Group Business Strategy;
- Three year business plan;
- Group funding policy and dividend strategy;
- Group Capital Programme; and
- Financial Results.

The Shareholders' Committee will meet at least three times a year and has the right to request updates and monitoring reports in order to review performance against agreed strategy and policy. The Committee, whenever necessary, deals with reserved matters pursuant to the Articles of Association.

The Manchester Airport Group PLC

ACCOUNTABILITY AND AUDIT

Audit Committee

The Audit Committee, which will meet at least three times a year, is chaired by an External Non-Executive Director and comprises four further Non-Executive Directors. The terms of reference of the Audit Committee include, *inter alia*:

- To review the financial statements, focusing particularly on accounting policies and practices and major judgemental areas;
- To consider the appointment, independence, performance and cost-effectiveness of the external auditors;
- To analyse the Board's key procedures adopted to provide effective control and to review the effectiveness of such procedures and make recommendations to the Board;
- To review the security of the Group's major assets;
- To review the Group's compliance with laws and regulations; and
- To review the Group's risk management assessments and to review the risk management controls and procedures.

Internal control

The Combined Code has extended the requirement that the Board reviews the effectiveness of the Group's system of internal financial control to cover all controls including financial, operational, compliance and risk management.

The Directors are responsible for the Group's system of internal control, which aims to safeguard assets and shareholders' investment, to ensure that proper accounting records are maintained, to ensure compliance with statutory and regulatory requirements and to ensure the effectiveness and efficiency of operations. A system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable, but not absolute assurance against material misstatement or loss.

Risk management framework

The management of risks rests ultimately with the Board. These risks include strategic planning, acquisitions, investments, expenditure control, treasury, trading and customer service. The Group's overall system of internal control has been in place throughout the year and up to the date of this annual report. The key elements of the internal control environment are:

- Clearly defined organisational structures, schemes of delegation and lines of responsibilities;
- Regular board meetings with a formal schedule of matters reserved to the Board for decision;
- Board and shareholder approval of long term business strategies, key business objectives and annual budgets. An annual review will be undertaken to update the business strategies and key business objectives;
- Preparation and Board approval of revised forecasts during the year;

The Manchester Airport Group PLC

- Monitoring performance on a monthly basis against budget and benchmarking of key performance indicators, with remedial action being taken where appropriate;
- Monitoring annual performance against long term business plan;
- Established procedures for planning, approving and monitoring capital projects, together with post investment project appraisal; and
- Implementation of Group wide procedures, policies, standards and processes on business activities, such as financial reporting, health and safety and human resources.

A programme of work has been established to assess the Group's internal control and risk management procedures against the requirements within the Combined Code. An external consultants' review of the internal audit department and the internal control environment has been commissioned, which will, *inter alia*, perform an independent benchmarking of the procedures and policies that are currently in place.

Once this project has been completed, it is intended that the Board will also introduce a programme of work to assess the Group's risk management procedures to ensure that there are clear procedures and practices for identifying, evaluating and managing the risks faced by the Group in accordance with the Turnbull Guidelines of the Combined Code.

Going concern

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events, which are inherently uncertain. Nevertheless, at the time of preparation of these accounts and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing these accounts.

The Manchester Airport Group PLC

Report on Directors' Remuneration

As stated in the Report on Corporate Governance an Appointments Panel and a Remuneration and Review Committee have been established to consider and recommend the appointment and remuneration of Executive and External Non-Executive Directors.

THE MANCHESTER AIRPORT GROUP PLC REMUNERATION POLICY

It is the policy of the Group to set remuneration levels at a sufficient level to attract, motivate and retain high calibre individuals who are capable of achieving the Group's objectives and to ensure that the Company and the Group is run successfully. The component parts of remuneration are structured so as to link rewards to both individual and corporate performance, responsibility and contribution.

Directors' remuneration is reviewed each year to ensure it remains consistent with the Group's business objectives and the creation of shareholder value. It is an important part of the remuneration strategy of The Manchester Airport Group PLC that all remuneration packages are set at a competitive level at a rate comparable to that in the market. The remuneration levels are benchmarked using external consultants and published survey data, which allow informed comparisons with similar companies of size and complexity. This exercise is undertaken annually with effect from 1 August and the next review will be submitted for consideration to the Remuneration and Review Committee in October 2002.

INDIVIDUAL COMPONENTS OF REMUNERATION FOR EXECUTIVE DIRECTORS

A summary of the remuneration for each individual director is set out on page 23 below. The individual components of the remuneration packages are summarised as follows:

Basic Salary

The individual salaries of Executive Directors are reviewed with effect from 1 August each year. Adjustments to basic salary will take into account comparisons with external data, as noted above, in addition to individual performance and any changes in responsibilities.

Performance related bonuses

A discretionary bonus is payable to the Executive Directors subject to the fulfilment of certain performance criteria. The amount of performance bonus will be agreed by the Remuneration and Review Committee and the ongoing criteria will also be examined to ensure that it remains focused upon motivating directors to enhance individual performance and create shareholder value.

Other benefits

The Executive Directors are entitled to receive a fully expensed car up to a certain value in addition to permanent health insurance, critical illness cover and death in service life cover over and above what is provided in the pension scheme.

Pensions

All Executive Directors are entitled to join the Group's pension schemes, or if preferred, to receive payments of a fixed percentage of salary into an approved pension scheme.

The Manchester Airport Group PLC

NON-EXECUTIVE DIRECTORS

The External Non-Executive Directors receive a fixed salary of £23,000 per annum. They receive no further benefits in kind and are not entitled to participate in any of the Group's pension schemes.

The Local Authority Non-Executive Directors do not receive any emoluments from The Manchester Airport Group PLC.

DIRECTORS' SERVICE CONTRACTS

All Executive Directors have service agreements with the Company, which are terminable on 12 months' notice.

The External Non-Executive Directors are appointed for a fixed term of two years. These appointments are reviewed and are terminable after twelve months.

DIRECTORS' INTERESTS

The Directors of the Company have no interest in the shares of the Company or any other Group company.

DIRECTORS' EMOLUMENTS

As mentioned on page 13, Mr G Muirhead and Ms R Burns were appointed on the date of incorporation. With the exception of Mr D Kennedy all other directors of the Company were appointed on 28 March 2002, the date that The Manchester Airport Group PLC acquired the shares of Manchester Airport PLC.

The new corporate governance arrangements, which were implemented on 21 June 2001, required the formation of a Group Board on this date. Accordingly, a Group Board was established comprising all of the Executive Directors and Local Authority Non-Executive Directors as set out on page 13 above. Up until 28 March 2002, these directors were directors of and paid by Manchester Airport PLC, but with the appropriate authority to act as directors for the whole of the Manchester Airport group of companies.

With the exception of Mr G Muirhead, the information set out in the following table includes the emoluments for the period from 21 June 2001 to 31 March 2002. Mr G Muirhead's emoluments also include the period from 1 April 2001 to 20 June 2001, during which he was an Executive Director of Manchester Airport PLC.

Mr PM Ridal was appointed as a director on 13 December 2001. From 21 June 2001 to 13 December 2001 he was the acting Group Finance Director and he received his payments through PricewaterhouseCoopers' Interim Management Solution Services. The amount paid to PricewaterhouseCoopers for Mr PM Ridal's services was £91,164 and is included below as amounts paid to third parties.

The Manchester Airport Group PLC

Details of Directors' emoluments are set out in the following table. All emoluments during the period under review were paid by Manchester Airport PLC.

	Salary / fees £'000	Bonuses £'000	Amounts paid to third parties £'000	Benefits in Kind Note 1 £'000	Total emoluments 2002 £'000	Total emoluments 2001 Note 2 £'000
Executive Directors						
Mr G Muirhead	239	-	-	31	270	230
Ms R Burns	151	-	-	17	168	-
Mr PM Ridal	47	-	91	4	142	-
Non-Executive Directors						
Ms M Salmon (Note 3)	4	-	-	-	4	-
Mr J Hancock (Note 3)	4	-	-	-	4	-
	445	-	91	52	588	230

Notes

- (1) Benefits include the taxable values of cars, fuel and critical illness insurance provided by the Group, in addition to the amount of premiums paid in respect of the Directors' permanent health insurance and death in service cover.
- (2) Total emoluments for the year ended 31 March 2001 included those for Mr G Muirhead only as he was the only current Company director that was a director of Manchester Airport PLC during this year.
- (3) Ms M Salmon and Mr J Hancock were both appointed on 24 January 2002. Their remuneration is included from this date.

No bonuses were paid to Executive Directors for the year ended 31 March 2002.

As stated in the Directors' report, Mr D Kennedy was appointed on 6 April 2002. Mr Kennedy receives a salary of £23,000 per annum.

Pensions

All of the Executive Directors, apart from Mr PM Ridal, are members of the Greater Manchester Pension Fund. During the year, the Company made contributions of £5,391 to a personal pension arrangement on Mr PM Ridal's behalf.

	Pensionable service at 31 March 2002 Years	Accrued pension at 31 March 2002 £'000	Accrued pension at 31 March 2001 £'000	Accrued lump sum at 31 March 2002 £'000	Accrued lump sum at 31 March 2001 £'000
Mr G Muirhead	13.50	40	31	120	95
Ms R Burns (Note 1)	15.58	32	17	97	51

Note

- (1) Ms R Burns pensionable service with the Greater Manchester Pension Fund at 31 March 2002 includes 10 years and 3 months from her employment with Manchester City Council.

Ms M Salmon

Chairman of the Remuneration and Review Committee
12 September 2002

The Manchester Airport Group PLC

Independent auditors' report to the members of The Manchester Airport Group PLC

We have audited the financial statements, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of group total recognised gains and losses, the statement of accounting policies and the related notes.

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, which are contained in the Directors' Report.

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.

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 the Chairman's Statement, the Chief Executive's Review, the Report on Corporate Governance, the Report on Directors' Remuneration, the Finance Director's Report and the Directors' Report.

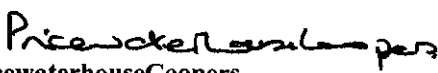
Basis of audit opinion

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Manchester

12 September 2002

The Manchester Airport Group PLC

Consolidated profit and loss account for the year ended 31 March 2002

	Notes	2002 £'000	2001 £'000
Turnover – continuing activities	2	321,364	264,747
Net staff costs	3	(79,745)	(68,265)
Depreciation on tangible fixed assets and amortisation of goodwill	3	(61,598)	(49,591)
Other operating charges	3	(137,898)	(96,217)
Operating profit before restructuring costs	3	62,041	50,674
Restructuring costs	3	(19,918)	-
Operating profit – continuing activities	3	42,123	50,674
Income from fixed asset investments		-	5,269
Other interest receivable and similar income	6	3,640	6,212
Interest payable and similar charges	7	(43,379)	(25,497)
Profit on ordinary activities before taxation	8	2,384	36,658
Taxation on profit on ordinary activities	9	(6,138)	(11,766)
(Loss) / profit on ordinary activities after taxation		(3,754)	24,892
Dividends	11	(5,000)	(8,000)
(Loss) / retained profit for the financial year	31	(8,754)	16,892

The Manchester Airport Group PLC

Statement of group total recognised gains and losses for the year ended 31 March 2002

	Notes	2002 £'000	2001 £'000
(Loss) / profit for the financial year		(3,754)	24,892
Unrealised surplus on revaluation of fixed assets	31	15,567	86,987
Total gains recognised during the year		11,813	111,879

Note of group historical cost profits for the year ended 31 March 2002

	Notes	2002 £'000	2001 £'000
Reported profit on ordinary activities before taxation		2,384	36,658
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	31	13,812	6,298
Historical cost profit on ordinary activities before taxation		16,196	42,956
Historical cost profit for the year retained after taxation and dividends		5,058	23,190

Reconciliation of movements in group equity shareholders' funds for the year ended 31 March 2002

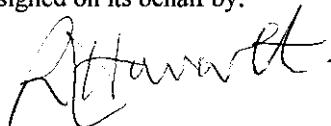
	Notes	2002 £'000	2001 £'000
(Loss) / profit for the financial year		(3,754)	24,892
Dividends	11	(5,000)	(8,000)
		(8,754)	16,892
Unrealised surplus on revaluation of fixed assets	31	15,567	86,987
Net change in equity shareholders' funds		6,813	103,879
Equity shareholders' funds as at 1 April		636,275	532,396
Closing equity shareholders' funds as at 31 March		643,088	636,275

The Manchester Airport Group PLC

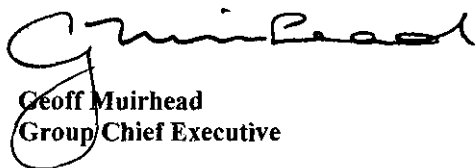
Consolidated balance sheet as at 31 March 2002

	Notes	2002 £'000	2001 <i>restated</i> (Note 1) £'000
Fixed assets			
Intangible assets	12	2,789	14,845
Tangible assets	14	1,134,492	1,126,027
Investments	15	2,298	3,354
		1,139,579	1,144,226
Current assets			
Stocks	17	2,112	2,231
Debtors	18	39,310	40,316
Investments	19	7	700
Cash at bank and in hand	20	67,198	66,103
		108,627	109,350
Creditors: amounts falling due within one year	21	(101,543)	(101,510)
Net current assets		7,084	7,840
Total assets less current liabilities		1,146,663	1,152,066
Creditors: amounts falling due after more than one year	22	(496,815)	(508,986)
Provisions for liabilities and charges	29	(6,760)	(6,805)
Net assets		643,088	636,275
Capital and reserves			
Called up share capital	30	204,280	204,280
Revaluation reserve	31	245,619	243,864
Profit and loss account	31	193,189	188,131
Equity shareholders' funds		643,088	636,275

The financial statements on pages 25 to 67 were approved by the Board of Directors on 12 September 2002 and signed on its behalf by:



Robert Howarth
Chairman



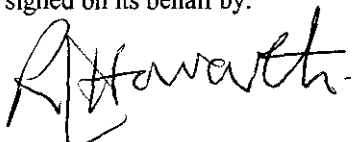
Geoff Muirhead
Group Chief Executive

The Manchester Airport Group PLC

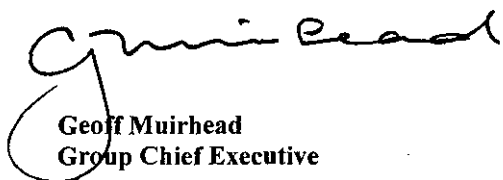
Company balance sheet as at 31 March 2002

	Notes	2002 £'000
Fixed assets		
Investments	15	207,537
Creditors: amounts falling due in less than one year	21	(1,050)
Net assets		206,487
Capital and reserves		
Called up share capital	30	204,280
Profit and loss account	31	2,207
Equity shareholders' funds	32	206,487

The financial statements on pages 25 to 67 were approved by the Board of Directors on 12 September 2002 and signed on its behalf by:



Robert Howarth
Chairman



Geoff Muirhead
Group Chief Executive

The Manchester Airport Group PLC

Consolidated cash flow statement for the year ended 31 March 2002

	Notes	2002 £'000	2001 £'000
Net cash inflow from operating activities		114,190	106,348
Returns on investments and servicing of finance			
Interest received		3,656	2,367
Interest paid		(39,349)	(23,388)
Issue costs of new bank loans	27	(2,840)	(3,796)
Interest element of finance lease rentals		(1,998)	(3,407)
Income received from current asset investments		-	4,065
Income received from fixed asset investments		-	5,269
Net cash outflow from returns on investment and servicing of finance		(40,531)	(18,890)
Taxation			
UK corporation tax paid		(11,225)	(10,463)
Cash outflow from taxation		(11,225)	(10,463)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(42,142)	(48,256)
Sale of tangible fixed assets		3,705	3,112
Purchase of fixed asset investments		(1,863)	(1,898)
Sale of fixed asset investments		-	203
Grants received		219	420
Net cash outflow from investing activities		(40,081)	(46,419)
Acquisitions			
Purchase of subsidiary undertaking (including acquisition costs)		(4,200)	(241,325)
Net cash outflow from acquisitions		(4,200)	(241,325)
Equity dividends paid			
Ordinary dividends		(7,239)	(761)
Net cash inflow / (outflow) before use of liquid resources and financing		10,914	(211,510)
Decrease / (increase) in short term deposits with banks	27	5,491	(33,536)
Receipts from current asset investments	27	693	12,600
Net cash inflow / (outflow) from management of liquid resources	27	6,184	(20,936)
Financing			
Bank loans raised	27	95,000	245,000
Bank loans repaid	27	(95,953)	-
Other loan repayments	27	(3,811)	(3,426)
Capital element of finance lease payments	27	(6,444)	(7,740)
Net cash (outflow) / inflow from financing	27	(11,208)	233,834
Increase in net cash	27	5,890	1,388

The Manchester Airport Group PLC

Reconciliation of operating profit to net cash inflow from operating activities

	2002 £'000	2001 £'000
Operating profit before restructuring costs	62,041	50,674
Restructuring costs	(19,918)	-
Operating profit	42,123	50,674
Depreciation on tangible fixed assets	61,280	49,398
Profit on disposal of tangible fixed assets	(2,875)	(457)
Loss on disposal of fixed asset investments	192	-
Amortisation of goodwill	318	193
Amounts written off fixed asset investments	1,487	575
Provision against profits from investments	1,240	-
Decrease in stocks	119	288
Decrease / (increase) in debtors	1,449	(887)
Release of grants	(628)	(595)
(Decrease) / increase in creditors	(5,286)	7,207
Restructuring costs not paid	14,864	-
Increase in provisions	(93)	(48)
Net cash inflow from operating activities	114,190	106,348

Reconciliation of net cash flow to movement in net debt

	Notes	2002 £'000	2001 £'000
Increase in cash in year	27	5,890	1,388
Cash (inflow) / outflow from management of liquid resources	27	(6,184)	20,936
Cash outflow / (inflow) from movement in debt (including issue costs paid)		14,048	(230,038)
Change in net debt resulting from cash flows		13,754	(207,714)
New finance leases / HP agreements	27	(1,204)	-
Movement in accrued debt issue costs	27	(2,017)	2,067
Other non-cash movements	27	(1,057)	(350)
Movement in net debt		9,476	(205,997)
Net debt at 1 April	27	(422,777)	(216,780)
Net debt at 31 March	27	(413,301)	(422,777)

Other non-cash movements primarily comprise amortisation of debt issue costs.

The Manchester Airport Group PLC

Accounting policies

These financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. The true and fair override provisions of the Companies Act 1985 have been invoked in respect of investment properties.

The accounting policies that the Group has adopted to determine the amounts included in respect of material items shown in the balance sheet, and also to determine the profit or loss, are shown below. Unless stated otherwise, these have been applied on a consistent basis.

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets.

Basis of consolidation

These consolidated accounts include the results, balance sheets and cash flows for all of The Manchester Airport Group PLC's subsidiary undertakings.

As permitted by FRS 6 "Acquisitions and Mergers", the financial statements for the year ended 31 March 2002 have been prepared in accordance with the principles of merger accounting. Accordingly, the consolidated accounts comprise the combined accounts of The Manchester Airport Group PLC and Manchester Airport PLC as if the companies had always been combined.

Other subsidiaries have been consolidated using the acquisition method, which dictates that the consolidated financial statements reflect the subsidiary's results from date of acquisition only.

The comparative figures for 31 March 2001 are those of Manchester Airport PLC and its subsidiaries, which were consolidated using principles of acquisition accounting.

Changes in accounting policies

The Group has adopted two new accounting standards during the year, FRS 19 "Deferred Taxation" and FRS 18 "Accounting Policies". In addition, the Group has incorporated the transitional disclosure arrangements of FRS 17 "Retirement Benefits".

FRS 19

FRS 19 was issued on 7 December 2000 and is mandatory for years ending on or after 23 January 2002. The adoption of FRS 19 represents a major change in accounting policy and the comparative figures have been restated accordingly. The restatement affects the consolidated balance sheet as at 31 March 2001 and a reconciliation is provided in Note 1.

FRS 19 requires deferred taxation to be provided in full on all material timing differences (apart from permanent timing differences) that have originated but not reversed by the balance sheet date. Previously, provision was made for deferred taxation on all material timing differences to the extent that it was probable that a future liability or asset would occur.

The Manchester Airport Group PLC

FRS 18

FRS 18 was issued on 7 December 2000 and is effective for accounting periods ending on or after 22 June 2001. The adoption of this accounting standard did not require any change in accounting policy.

FRS 17

FRS 17 was published in November 2000 and introduces significant changes to the accounting for defined benefit schemes. FRS 17 requires the assets of a defined benefit pension scheme to be measured at market value at each balance sheet date and the liabilities to be measured using a specified actuarial valuation method and to be discounted using a corporate bond yield rate.

FRS 17 requires the resulting pension scheme surplus or deficit (net of any deferred tax liability or asset) to be recognised immediately on the balance sheet and any resulting actuarial gains and losses to be recognised immediately in the statement of total recognised gains and losses rather than being spread over the expected remaining service lives of employees.

The standard is subject to harmonisation with international accounting standards and the full introduction has been deferred by the Accounting Standards Board until 2006. However, under transitional arrangements prescribed in FRS 17, certain disclosures are required this year, which are set out in Note 37 to these financial statements.

Turnover

Turnover represents the full value of sales and services to external customers during the year, excluding value added tax. Where income is received in advance for services the revenue is spread over the period of the service.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation, modified by the revaluation of all significant operational and investment property in addition to integral fixtures and fittings and plant and machinery.

Depreciated gross replacement cost is the cost (excluding that of disposing of or demolishing the existing assets) of providing or constructing the existing assets in their existing form at prices then current, less accumulated replacement cost depreciation calculated with reference to the gross replacement cost and the remaining useful lives of the assets. The Group has a policy to revalue tangible fixed assets at least every five years with interim valuations every three years.

Depreciation is provided on a straight-line basis over the expected useful lives of tangible fixed assets as follows:

	Years
Long leasehold property	50
Runways, taxiways and aprons	75
Main services	30
Plant and machinery	10
Motor vehicles	7
Fixtures, fittings, tools and equipment	5

The Manchester Airport Group PLC

No depreciation is provided on land and assets in course of construction. Repairs and maintenance costs are written off as incurred.

Investment properties

In accordance with Statement of Standard Accounting Practice ("SSAP") 19 "Accounting for Investment Properties", investment properties are revalued annually by an Independent Property Valuer, with the surplus or deficit being transferred to a revaluation reserve. No provision is made for depreciation of investment properties.

This departure from the requirements of the Companies Act 1985, which requires all properties to be depreciated is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view in accordance with applicable Accounting Standards.

Goodwill

Goodwill represents the excess of fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill is capitalised and eliminated by amortisation through the profit and loss account over its useful economic life. This is considered to be the period over which benefit will be derived from the goodwill acquired. Goodwill arising on the acquisition of Humberside International Airport Limited is being amortised over five years. Goodwill arising on the acquisitions of East Midlands International Airport Limited and Bournemouth International Airport Limited is being amortised over 20 years.

Finance and operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any benefits received by the Group as an incentive to sign the lease are spread on a straight-line basis over the lease term.

Leased assets operated under the terms of a finance lease are included in tangible fixed assets and depreciated over the shorter of the lease term and the estimated useful life of the asset. Leases are regarded as finance leases where their terms transfer to the Group substantially all the risks and rewards of ownership.

Obligations under finance leases are included within creditors and are reduced by the capital element of lease payments, finance charges being allocated over the term of the lease to produce a constant rate of charge on the outstanding obligation for each accounting period of the lease terms.

Fixed asset investments

Fixed asset investments are stated at cost less any provision felt necessary by the Directors for diminution in value. Costs incurred to acquire investments are capitalised within the cost of the investment.

Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

The Manchester Airport Group PLC

Investment income

Income from investments, other than from associated undertakings, together with any related tax credit, is included in the consolidated profit and loss account on an accruals basis.

Financial instruments

Issue costs connected to the raising of debt finance are deducted from the capital value of the finance raised and amortised over the expected term of the loan. The derivative financial instruments utilised by the Group are interest rate swaps. These instruments are held principally to manage the interest rate exposure of borrowings. Interest differentials on derivative instruments are recognised by adjusting net interest payable.

Capital-based grants

Grants received and receivable relating to tangible fixed assets are shown as a deferred credit. An annual transfer to the profit and loss account is made on a straight line basis over the expected useful life of the asset in respect of which the grant was received.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is calculated on an average cost basis.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date.

Deferred taxation is measured on a discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

In accordance with FRS 19, the discount rate used is the post tax yield on UK government bonds with maturity dates similar to those of the deferred tax liabilities and assets.

The Manchester Airport Group PLC

Pension costs

The Group participates in several funded defined benefit schemes, which are contracted out of the state scheme. The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years, the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme. Provisions are made for the capital cost of unfunded additional pensions, which are granted during the year.

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Notes to the financial statements for the year ended 31 March 2002

1 Restatement of comparatives

The adoption of FRS 19 has required a change to the accounting treatment of the deferred tax liabilities as at 31 March 2001. This also affects the goodwill arising on the acquisition of East Midlands and Bournemouth Airports as shown in Note 13.

In addition, unfunded pension provisions in respect of certain employees at East Midlands and Bournemouth Airports were previously disclosed as "other creditors falling due after more than one year" in the 2001 consolidated balance sheet. These have been reclassified within provisions.

There is no effect on the consolidated profit and loss account. However, the prior year consolidated balance sheet has been restated accordingly as follows:

	Intangible fixed assets	Creditors falling due after one year	Provisions
	£'000	£'000	£'000
As previously reported at 31 March 2001	13,517	(510,083)	(4,380)
Adoption of FRS 19 at 31 March 2001	1,328	-	(1,328)
Reclassification of unfunded pension provisions	-	1,097	(1,097)
31 March 2001 restated	14,845	(508,986)	(6,805)

2 Turnover

	Continuing Operations	
	2002	2001
	£'000	£'000
Aviation income		
Aviation charges	165,379	131,496
Aircraft parking	1,941	1,809
Total aviation income	167,320	133,305
Commercial income		
Baggage and freight handling	20,288	15,333
Car parking	31,443	25,664
Property and property related income	33,666	25,878
Concessions	51,911	42,965
Other	16,736	21,602
Total commercial income	154,044	131,442
Total income	321,364	264,747

Turnover is predominantly earned within the United Kingdom.

The Manchester Airport Group PLC

3 Operating profit

	Continuing operations	
	2002	2001
	£'000	£'000
Turnover	321,364	264,747
Net staff costs		
Wages and salaries	67,788	58,732
Social security costs	5,209	4,750
Other pension costs	6,748	4,783
	79,745	68,265
Depreciation and amortisation	61,598	49,591
External charges before restructuring costs	117,980	96,217
Operating profit before restructuring costs	62,041	50,674
Restructuring costs:		
Security staff reorganisation	16,395	-
Manchester Airport management restructure	3,523	-
Total restructuring costs	19,918	-
Operating profit	42,123	50,674

Staff costs shown above are stated net of £332,000 (2001: £1,101,000), which has been capitalised into the cost of fixed assets.

Profit before taxation, operating profits and operating assets have not been shown by class of business, as it is not practicable to do so.

Restructuring costs

The exceptional restructuring costs incurred during the year relate to the reorganisation of the airport security function and the management and administrative support structure at Manchester Airport PLC. The costs include severance pay and loyalty bonuses in addition to exceptional pension contributions for those employees who have decided to take the option of early retirement.

4 Employee information

The average monthly number of persons (including the Directors) employed by the Group during the year was:

	2002	2001
	Number	Number
By activity		
Administration	517	405
Operational	1,924	1,639
Baggage handling	551	619
	2,992	2,663

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5 Directors' emoluments

Directors' emoluments for the year include Mr G Muirhead for the whole of the year and Ms R Burns and Mr PM Ridal from 21 June 2001. On this date Ms R Burns was appointed as an Executive Director of Manchester Airport PLC, with the appropriate authority to act as a director for the whole of the Manchester Airport group of companies. Mr PM Ridal was appointed as acting Group Finance Director on 21 June 2001. The emoluments for the External Non-Executive Directors are included from the date of their appointment.

All emoluments throughout the year, were paid by Manchester Airport PLC. The prior year comparatives include only those emoluments for Mr G Muirhead, as he was the only Executive Group Board director who was also a director of Manchester Airport PLC during the year ended 31 March 2001.

Further detail of directors' emoluments and a description of the Group's remuneration policy are set out in the Report on Directors' Remuneration.

	2002	2001
	£'000	£'000
Aggregate emoluments	588	230

Retirement benefits are accruing to two Directors (2001: one) under a defined benefit scheme.

Highest paid director

	2002	2001
	£'000	£'000
Aggregate emoluments and benefits	270	230
Defined benefit scheme:		
Accrued pension at end of year	40	31
Accrued lump sum at end of year	120	95

6 Interest receivable and similar income

	2002	2001
	£'000	£'000
Income from current asset investments	-	4,065
Bank interest receivable	3,640	2,147
	3,640	6,212

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7 Interest payable and similar charges

	2002 £'000	2001 £'000
Interest payable on bank loans and overdrafts	18,256	250
Interest payable on finance leases	2,723	3,402
Interest payable on other borrowings	21,343	21,845
Amortisation of issue costs of bank loans	1,057	-
	43,379	25,497

8 Profit on ordinary activities before taxation

	2002 £'000	2001 £'000
Profit on ordinary activities before taxation is stated after charging / (crediting):		
Amortisation of goodwill of subsidiary undertakings	318	193
Release of capital based grants	(628)	(595)
Group audit fees and expenses of which the parent company was £10,000 (2001: £43,000)	135	80
Hire of plant and machinery – operating leases	867	434
Hire of other assets – operating leases	9,754	10,187
Depreciation of tangible fixed assets:		
Owned assets	52,969	39,859
Leased assets	8,311	9,539
Profit on disposal of tangible fixed assets	(2,875)	(457)
Loss on disposal of fixed asset investments	192	-
Amounts written off fixed asset investments	1,487	575
Provision against profits from fixed asset investments	1,240	-

Fees paid to PricewaterhouseCoopers for non-audit services in the UK amounted to £533,000 (2001: £2,051,000). This amount included £95,000 for post deal integration and completion account services following the acquisition of East Midlands and Bournemouth Airports; £129,000 (including a £37,500 "finders fee") in respect of amounts paid for the services of Mr PM Ridal with the remainder representing general tax advice and specific accounting, taxation and pension advice in relation to the corporate restructure.

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9 Taxation

	Notes	2002 £'000	2001 £'000
CURRENT TAXATION			
UK Corporation tax – current year at 30%		6,025	11,775
– prior year		65	-
Total current tax (see reconciliation below)		6,090	11,775

DEFERRED TAXATION

Origination and reversal of timing differences and movement in discount factor	29	48	(9)
Total deferred taxation	29	48	(9)

Total tax charge for the year		6,138	11,766
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FACTORS AFFECTING THE CURRENT TAX CHARGE FOR THE YEAR

The tax for the year ended 31 March 2002 is higher than the standard rate of corporation taxation in the UK of 30%. A detailed reconciliation is set out in the following table.

	2002 £'000	2001 £'000
Profit on ordinary activities before taxation	2,384	36,658
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	715	10,997
Adjustments:		
Uplift in depreciation on revalued assets	4,290	1,889
Restructuring costs not deductible for tax purposes	1,451	-
Other expenses that are not deductible for tax purposes	926	142
Capital allowances in excess of historical depreciation	(2,249)	(2,139)
Short term timing differences	892	886
Adjustments to prior year tax charge	65	-
Group current tax charge for the year (above)	6,090	11,775

FACTORS AFFECTING THE TAX CHARGE IN FUTURE YEARS

The Group's current tax charge is significantly higher than the standard rate of corporation tax in the UK. As shown above this is due primarily to the uplift in depreciation following the revaluation of Manchester Airport PLC's assets and the inclusion of restructuring costs of £4.8 million that were not allowable for tax purposes in 2002. It is expected that the effective current rate of tax will reduce next year as the restructuring costs will be recoverable, although the impact of the revaluation depreciation will result in an overall high current tax charge as a percentage of profit.

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The Group's deferred tax charge is more difficult to predict as, in particular, it is affected by changes in interest rates and the capital expenditure programme. Based upon the current capital expenditure plans, it is likely that the undiscounted consolidated deferred tax liability will increase and not reverse in the short term. However, movements in the discount rates will affect the actual charge in the year.

10 Profit on ordinary activities after tax for the Company

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements.

The profit attributable to the shareholders, before dividends, includes £3,207,000 dealt with in the financial statements of the Company.

11 Dividends

	2002 £'000	2001 £'000
Ordinary		
Interim dividend of nil pence per share (2001: 0.373 pence) per share	-	761
Final dividend declared of 2.45 pence (2001: 3.55 pence) per share	5,000	7,239
	5,000	8,000

12 Intangible fixed assets

GOODWILL	£'000
Cost	
At 31 March 2001	13,903
Adjustment arising from the implementation of FRS 19 in respect of East Midlands and Bournemouth Airports (Note 13)	1,328
At 31 March 2001 as restated	15,231
Hindsight period adjustments arising in respect of the acquisition of East Midlands and Bournemouth Airports (Note 13)	(11,738)
At 31 March 2002	3,493
Amortisation	
At 31 March 2001	386
Charge for year	318
At 31 March 2002	704
Net book value	
At 31 March 2002	2,789
At 31 March 2001 as restated	14,845

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13 Goodwill arising on the acquisition of East Midlands and Bournemouth Airports

The Group purchased the entire share capital of East Midlands International Airport Limited and Bournemouth International Airport Limited on 28 March 2001 for gross consideration of £245,138,000. During the year ended 31 March 2002 a further £629,000 of consideration was incurred bringing the total amount paid for the two airports to £245,767,000 (including fees). The additional consideration represented further acquisition costs of £309,000 and £320,000 relating to the settlement of the completion accounts.

Given the proximity of the acquisition to the 31 March 2001 year end, it was not possible to include final fair value adjustments in the financial statements at that date. Therefore, in accordance with FRS 7 "Fair Values in Acquisition Accounting", the fair values and goodwill attributable to the acquisition stated in last year's accounts were provisional. During the year ended 31 March 2002 these fair values have been reviewed and amended with particular emphasis on the provisional valuation of fixed assets and the separation between land and operational property. Furthermore, the introduction of FRS 19 required a retrospective adjustment to the fair value of the deferred tax provisions. The final fair value adjustments are set out below.

	Provisional fair value £'000	Implementation of FRS 19 £'000	Completion and hindsight period adjustments £'000	Final Fair value £'000
Tangible fixed assets	234,129	-	12,541	246,670
Stock	338	-	-	338
Debtors	4,070	-	120	4,190
Creditors: amounts due within one year	(5,008)	-	(294)	(5,302)
Creditors: amounts due after one year	(232)	-	-	(232)
Provisions	(1,097)	(1,328)	-	(2,425)
Net assets acquired	232,200	(1,328)	12,367	243,239
Goodwill	12,938	1,328	(11,738)	2,528
Consideration	245,138	-	629	245,767

Consideration

Consideration was satisfied by a cash payment to the vendors by Crow Aerodromes Limited of £241,320,000 and the payment of fees associated with the acquisition amounting to £4,447,000. The total amount paid included the settlement of inter-company debt of £73,746,000.

Implementation of FRS 19

The adjustment for the implementation of FRS 19 represents provision for a discounted deferred taxation liability as at 28 March 2001. This has been calculated in accordance with the Group Policy as set out in the statement of accounting policies.

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Completion and hindsight period adjustments

(a) Tangible fixed assets

The fair value adjustment represents a revaluation of tangible fixed assets as at the date of acquisition. The provisional valuation (which related to operational assets only) undertaken as at 28 March 2001 was further reviewed and updated during the year. This involved separately identifying a land balance from the valuation and applying an uplift from the date of the last full valuation in 1995. The Directors also reviewed the valuation of non-operational land and buildings, which prior to the acquisition, were last valued in September 2000.

(b) Other assets and liabilities

An adjustment was made to other assets and liabilities, particularly corporation tax liabilities, following a detailed review of the net working capital balance as at the date of acquisition.

14 Tangible fixed assets

GROUP

	Land and freehold property	Long leasehold property	Runways, taxiways and aprons	Main services	Plant and machinery, motor vehicles	Fixtures, fittings, tools and equipment	Leased assets	Assets in course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation									
At 1 April 2001	42,102	419,526	266,799	125,721	258,135	11,444	66,971	10,074	1,200,772
Hindsight adjustment	12,541	-	-	-	-	-	-	-	12,541
Reclassification	158,833	(158,833)	273	-	1,646	1,877	-	(3,796)	-
Additions	1,779	5,102	2,551	270	7,132	2,479	1,391	21,763	42,467
Disposals	-	(234)	-	-	(1,680)	(1,754)	(461)	-	(4,129)
Revaluation	12,153	3,414	-	-	-	-	-	-	15,567
At 31 March 2002	227,408	268,975	269,623	125,991	265,233	14,046	67,901	28,041	1,267,218
Depreciation									
At 1 April 2001	-	3,022	1,575	142	22,696	6,432	40,878	-	74,745
Charge for the year	1,396	8,385	7,681	6,064	27,679	1,764	8,311	-	61,280
Disposals	-	-	-	-	(1,087)	(1,751)	(461)	-	(3,299)
At 31 March 2002	1,396	11,407	9,256	6,206	49,288	6,445	48,728	-	132,726
Net book value									
At 31 March 2002	226,012	257,568	260,367	119,785	215,945	7,601	19,173	28,041	1,134,492
Net book value									
At 31 March 2001	42,102	416,504	265,224	125,579	235,439	5,012	26,093	10,074	1,126,027

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Cost or valuation at 31 March 2002 is represented by:

	Land and freehold property	Long leasehold property	Runways, taxiways and aprons	Main services	Plant and machinery, motor vehicles	Fixtures, fittings, tools and equipment	Leased assets	Assets in course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valuation	75,480	263,865	235,344	123,209	195,783	1,144	-	-	894,825
Cost	151,928	5,110	34,279	2,782	69,450	12,902	67,901	28,041	372,393
	227,408	268,975	269,623	125,991	265,233	14,046	67,901	28,041	1,267,218

Revaluation policy

Investment properties

Included with tangible fixed assets are investment properties with a net book value of £105,059,000 as at 31 March 2002 (2001: £91,469,000). In accordance with SSAP 19, these assets are not depreciated. All investment properties were valued on 31 March 2002 on the basis of open market value by Drivers Jonas, Chartered Surveyors. These valuations were prepared in accordance with the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors.

Of the total valuation of investment properties, £75,480,000 comprises freehold land and buildings, with the remainder, £29,579,000, representing long leasehold land and buildings.

Operational assets

It is Group policy to revalue operational assets at least every five years. The last valuation was undertaken on 31 March 2001 by Gleeds, International Management and Construction Consultants. This was also extended to a valuation of the operational assets of East Midlands International Airport and Bournemouth International Airport for the fair value exercise.

Land, leased assets, assets in the course of construction and certain short life assets are not revalued.

The net book values of leased assets and assets in the course of construction are shown on the table above. The net book value of operational land as at 31 March 2002 was £54,643,000 and the net book value of those short life assets that are not revalued are:

	Net book value at 31 March 2002 £'000
Long leasehold property	6,279
Runways, taxiways and aprons	9,302
Plant and machinery	19,367
Furniture and fittings	6,681

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Historical cost

If tangible fixed assets (including investment properties) had not been revalued they would have been included at the following amounts:

	Land and freehold property	Long leasehold property	Runways, taxiway and aprons	Main services	Plant and machinery, motor vehicles	Fixtures, fittings, tools and equipment	Leased assets	Assets in course of construction	Total
Group	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2002									
Cost	215,255	316,750	233,321	162,214	371,787	33,150	67,901	28,041	1,428,419
Aggregate depreciation based on cost	1,396	112,320	94,155	57,114	205,236	18,903	50,621	-	539,745
At 31 March 2001									
Cost	196,171	316,646	230,499	161,945	364,687	30,547	66,971	10,074	1,377,540
Aggregate depreciation based on cost	-	104,326	88,796	51,217	182,825	18,722	49,290	-	495,176

The Manchester Airport Group PLC

15 Fixed asset investments

GROUP	2002 £'000	2001 £'000
Investments held by Worknorth Limited and Worknorth II Limited:		
At 1 April 2001	3,119	1,999
Additions in the year	1,863	1,898
Amounts written off	(1,442)	(575)
Provision against profits from fixed asset investments	(1,240)	-
Disposals in the year	(192)	(203)
At 31 March 2002	2,108	3,119
Other investments:		
At 1 April 2001	235	-
Transfer from current asset investments	-	235
Amounts written off investments	(45)	-
At 31 March 2002	190	235
Total investments at cost less amounts written off	2,298	3,354

COMPANY	2002 £'000
Subsidiary undertakings:	
On incorporation	-
Additions	207,497
At 31 March 2002	207,497
Other investments:	
On incorporation	-
Additions	40
At 31 March 2002	40
Total investments at cost	207,537

The additions to subsidiary undertakings in the year comprise the share for share exchange in Manchester Airport PLC (£204,280,000, which is equivalent to the issued share capital of Manchester Airport PLC) and the investments in Manchester Airport Aviation Services Limited, Manchester Airport Ventures Limited and Manchester Airport Developments Limited (£3,217,000) following the receipt of the dividend in specie from Manchester Airport PLC.

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16 Interests in subsidiary undertakings

Name of undertaking	Description of shares held	Proportion of nominal value of issued shares held by:	
		Group	Company
Airport Advertising Limited	Ordinary £1 shares	100%	-
	Cumulative participating £1 preference shares	100%	-
Airport Management Consultants Limited	Ordinary £1 shares	100%	-
	Cumulative participating £1 preference shares	100%	-
Airport Petroleum Limited	Ordinary £1 shares	100%	-
	Cumulative participating £1 preference shares	100%	-
Airport Trading Limited	Ordinary £1 shares	100%	-
	Cumulative participating £1 preference shares	100%	-
Astrobold Limited	Ordinary £1 shares	100%	-
Bainsdown Limited	Ordinary £1 shares	100%	-
Bournemouth International Airport Limited	Ordinary £1 shares	100%	-
Crow Aerodromes Limited	Ordinary £1 shares	100%	-
	9% cumulative redeemable preference shares	100%	-
East Midlands International Airport Limited	Ordinary £1 shares	82.712%	-
	Deferred ordinary £1 shares	82.712%	-
Manchester Airport PLC	Ordinary £1 shares	100%	100%
Manchester Airport Aviation Services Limited	Ordinary £1 shares	100%	100%
Manchester Airport Building Limited	Ordinary £1 shares	100%	-
Manchester Airport Developments Limited	Ordinary £1 shares	100%	100%
Manchester Airport Employment Services Limited	Ordinary £1 shares	100%	-
Manchester Airport Finance Limited	Ordinary £1 shares	99%	-
Manchester Airport Ventures Limited	Ordinary £1 shares	100%	100%
Ringway Handling Services Limited	Ordinary £1 shares	100%	-
Ringway Handling Limited	Ordinary £1 shares	100%	-
Steadycontrast Limited	Ordinary £1 shares	82.712%	-
Worknorth Limited	Preference shares	*	-
	Ordinary £1 shares	*	-
Worknorth II Limited	Cumulative participating £1 preference shares	22.5% *	-
	Ordinary £1 shares	49.0% *	-

All the above companies operated principally in their country of incorporation or registration, which is England and Wales.

* Worknorth Limited is a wholly owned subsidiary of Worknorth II Limited, which is in turn a subsidiary of Airport Ventures Limited, a company registered in England and Wales and limited by guarantee. These companies have been consolidated on the grounds of dominant influence, with a provision included if necessary, for profits that may not be accessible by The Manchester Airport Group PLC.

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The principal activities of those subsidiaries are as follows:

Airport Advertising Limited	- Management of advertising and promotions at UK airports
Airport Management Consultants Limited	- Commercial activities at airports
Airport Petroleum Limited	- Petroleum retail at UK airports
Airport Trading Limited	- Trading and commercial activities at airports
Astrobold Limited	- Dormant
Bainsdown Limited	- Holding land on behalf of the Group
Bournemouth International Airport Limited	- Operation of an airport
Crow Aerodromes Limited	- Intermediate holding company of East Midlands International Airport Limited and Bournemouth International Airport Limited
East Midlands International Airport Limited	- Operation of an airport
Humberside International Airport Limited	- Operation of an airport
Manchester Airport PLC	- Operation of an airport
Manchester Airport Aviation Services Limited	- Provision of airport services and facilities management
Manchester Airport Building Limited	- Holding cash on deposit to earn interest
Manchester Airport Developments Limited	- Property development and estate management
Manchester Airport Employment Services Limited	- Dormant
Manchester Airport Finance Limited	- Dormant
Manchester Airport Ventures Limited	- Intermediate holding company for Airport Advertising Limited, Airport Management Consultants Limited, Airport Petroleum Limited and Airport Trading Limited
Ringway Handling Services Limited	- The provision of airport ground handling at Manchester Airport
Ringway Handling Limited	- The provision of baggage and freight handling staff at Manchester Airport to Ringway Handling Services Limited
Steadycontrast Limited	- Dormant
Worknorth Limited	- Financial resources for business located primarily in the Greater Manchester area
Worknorth II Limited	- Providing seed corn funding for small businesses

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17 Stocks

Stocks comprise consumables.

18 Debtors

	Group	
	2002	2001
	£'000	£'000
Trade debtors	28,833	30,859
Corporation tax recoverable	458	58
Other debtors	5,672	4,800
Prepayments and accrued income	4,347	4,599
	39,310	40,316

19 Current asset investments

As at 31 March 2002, the market value of the current asset investments, which are stated at cost, was equivalent to their carrying value (2001: £843,174).

20 Cash at bank and in hand

		Group	
	Notes	2002	2001
		£'000	£'000
Cash accessible on demand	27	8,585	1,999
Other short term deposits	27	58,613	64,104
		67,198	66,103

In accordance with FRS 1 "Cash flow statements" (revised October 1996) the movement in net cash in the cash flow statement refers to cash accessible on demand. Cash is accessible on demand if it can be withdrawn at any time without notice and without penalty or if a period of notice of not more than 24 hours or one working day has been agreed.

Included within other short term deposits is £10.8 million (2001: £8.4 million) the use of which is subject to certain restrictions. This balance is held in two separate accounts that are required to be maintained as part of the secured bank financing arrangements (see Note 24) to meet future capital expenditure and senior debt service requirements. The monies held within these accounts are accessible under certain terms and conditions and in all circumstances require the permission of the Lender.

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21 Creditors: amounts falling due within one year

	Notes	Group 2002 £'000	2001 £'000	Company 2002 £'000
Bank overdrafts	23	696	-	-
Bank loans	23	3,453	619	-
Other borrowings	23	4,361	4,088	-
Obligations under finance leases	23	4,665	5,930	-
Trade creditors		34,531	42,954	-
Amounts owed to subsidiary undertakings		-	-	40
Corporation tax		6,638	11,373	-
Other taxation and social security payable		3,170	2,397	-
Other creditors		3,745	7,050	-
Accruals and deferred income		34,764	19,334	10
Capital-based grants		520	526	-
Dividends payable		5,000	7,239	1,000
		101,543	101,510	1,050

22 Creditors: amounts falling due after more than one year

	Notes	Group 2002 £'000	2001 <i>restated</i> £'000
Bank loans	23	234,965	238,518
Other borrowings	23	208,879	212,963
Obligations under finance leases	23	23,487	27,462
Other creditors		2,677	2,418
Accruals and deferred income		9,465	9,661
Capital-based grants		17,342	17,964
		496,815	508,986

Pension provisions of £1,097,000, previously included in other creditors as at 31 March 2001, have now been reclassified as provisions (see Notes 1 and 29).

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23 Maturity analysis of bank loans, bank overdrafts, other borrowings and finance leases

	Notes	2002 £'000	Group 2001 £'000
In one year or less, or on demand			
Overdraft		696	-
Bank loans		3,453	619
Other borrowings		4,361	4,088
Obligations under finance leases		4,665	5,930
		13,175	10,637
In more than one year, but no more than two years			
Bank loans		3,742	98,010
Other borrowings		4,436	4,162
Obligations under finance leases		2,273	4,942
		10,451	107,114
In more than two years, but no more than five years			
Bank loans		107,436	12,818
Other borrowings		21,380	19,837
Obligations under finance leases		7,853	6,678
		136,669	39,333
In more than five years – due other than by instalments			
Other borrowings		74,058	74,058
		74,058	74,058
In more than five years – due by instalments			
Bank loans		123,787	127,690
Other borrowings		109,005	114,906
Obligations under finance leases		13,361	15,842
		246,153	258,438
Total			
Bank overdraft		696	-
Bank loans	24	238,418	239,137
Other borrowings	25	213,240	217,051
Obligations under finance leases		28,152	33,392
		480,506	489,580

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24 Bank loans

	2002 £'000	Group 2001 £'000
Unsecured bank revolving credit of £95 million repayable wholly on 30 June 2004 at an annual interest rate of LIBOR plus 1.4%	95,000	95,000
Secured bank loan of £89.047 million at an annual interest rate of LIBOR plus 1.75%	89,047	90,000
Secured bank loan of £15 million at an annual interest rate of LIBOR plus 2.25%	15,000	15,000
Secured bank loan of £15 million at an annual interest rate of LIBOR plus 2.25%	15,000	15,000
Secured bank loan of £30 million at a fixed annual interest rate of 12%	30,000	30,000
Gross bank loans	244,047	245,000
Less: unamortised debt issue costs	(5,629)	(5,863)
	238,418	239,137
The total value of loans repayable by instalments, any part of which falls due after more than five years	144,263	144,778

During the year ended 31 March 2002, the Group obtained additional financing through a £130 million committed revolving credit facility payable in full by 30 June 2004. As at 31 March 2002, £95 million had been drawn which was used to fund the repayment of the £95 million bridging loan outstanding on 31 March 2001.

Security provided on bank loans

Bank loans amounting to £149,047,000 (2001: £150,000,000) are secured by a debenture over the assets of Crow Aerodromes Limited. This debenture is guaranteed by East Midlands International Airport Limited, Astrobald Limited and Bournemouth International Airport Limited.

Bank loans repayable by instalments wholly or partly after five years

The principal repayment terms of these loans are set out as follows:

- The £89.047 million secured variable interest bank loan is repayable in 55 further quarterly instalments ending on 31 December 2015.
- The two £15 million secured variable interest bank loans are repayable by 31 December 2015 in 20 quarterly instalments commencing on 31 March 2011.
- The £30 million secured fixed interest loan is repayable by 31 December 2020 in 10 half yearly instalments commencing on 30 June 2016.

As part of its interest rate management strategy, the Group has an interest rate swap arrangement for £104.05 million of the £119.05 million secured variable rate bank loans. Under this agreement, which will terminate on 31 March 2009, the Group pays interest at a fixed rate of 5.5% plus the associated margin over the cost of funds.

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The Group's interest rate strategy is summarised in further detail in the Finance Director's Report on page 11 above and in Note 28 below.

25 Other borrowings

	2002 £'000	Group 2001 £'000
Repayable other than by instalments (all secured)		
Wholly on 1 March 2027 at an interest rate of 9%	11,000	11,000
Wholly on 1 March 2015 at an interest rate of 9.5%	5,000	5,000
Wholly on 15 November 2016 at an interest rate of 9.75%	3,588	3,588
Wholly on 15 November 2017 at an interest rate of 9.375%	9,032	9,032
Wholly on 30 September 2015 at an interest rate of 11.5%	3,593	3,593
Wholly on 15 January 2011 at an interest rate of 11.25%	37,633	37,633
Wholly on 30 March 2006 at an interest rate of 11.125%	5,418	5,418
Wholly on 30 March 2018 at an interest rate of 11.125%	4,212	4,212
	79,476	79,476
Repayable by instalments		
In 50 half yearly instalments commencing 1 March 1993 at an interest rate of 10.75% (secured)	7,318	7,496
In 49 half yearly instalments commencing 1 June 1993 at an interest rate of 10.375% (secured)	11,457	11,747
In 49 half yearly instalments commencing 1 April 1993 at an interest rate of 10.375% (secured)	17,985	18,442
In 48 half yearly instalments commencing 1 August 1993 at an interest rate of 10.375% (secured)	17,739	18,219
In 48 half yearly instalments commencing 1 July 1994 at an interest rate of 9.5% (secured)	17,155	17,601
In 48 half yearly instalments commencing 1 September 1994 at an interest rate of 9.5% (secured)	17,155	17,601
In 48 half yearly instalments commencing 1 May 1994 at an interest rate of 9.5% (secured)	15,486	15,887
In 49 half yearly instalments commencing 1 May 1994 at an interest rate of 7.875% (secured)	1,285	1,322
In 30 half yearly instalments commencing 1 September 1995 at an interest rate of 9.125% (secured)	3,458	3,740
Unsecured loan from Tameside MBC at the Greater Manchester Metropolitan Debt Administration Fund rate (2002: 8.2% (2001: 8.5%)), repayable in 35 annual instalments from 31 March 1987	21,850	22,281

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	2002 £'000	Group 2001 £'000
Other borrowings repayable by instalments (continued)		
Unsecured loan from North Lincolnshire District Council to Humberside International Airport Limited at an interest rate midway between Natwest Bank base rate and the Council's consolidated loans pool rate repayable in 22 annual instalments from 31 May 2002 (Rate during 2002: 6.3%; 2001: 7.1%)	2,440	2,780
Non interest bearing volume related loan to Airport Petroleum Limited from third party	303	303
Non interest bearing volume related loan to Humberside International Airport Limited from third party	133	156
	133,764	137,575
	213,240	217,051
The total value of loans repayable otherwise than by instalments in more than five years	74,058	74,058
The total value of loans repayable by instalments, any part of which falls due after more than five years	133,328	137,116

Security of other borrowings

Loans amounting to £188,514,000 (2001: £191,531,000) are secured by a debenture over all the assets of Manchester Airport PLC.

26 Obligations under finance leases

The total value of finance leases repayable by instalments, any part of which falls due after more than five years is £23.9 million (2001: £25.1 million).

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27 Reconciliation of movement in net debt

	At 1 April 2001	Cash flow	Debt issue costs paid in year	Debt issue costs previously accrued	New finance leases	Other non- cash changes	At 31 March 2002
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net cash							
Cash at bank and in hand	1,999	6,586	-	-	-	-	8,585
Bank overdraft	-	(696)	-	-	-	-	(696)
	1,999	5,890	-	-	-	-	7,889
Liquid resources							
Short term deposits included in cash	64,104	(5,491)	-	-	-	-	58,613
Current asset investments	700	(693)	-	-	-	-	7
	64,804	(6,184)	-	-	-	-	58,620
Debt due in less than one year							
Bank loans	(619)	953	2,840	(2,067)	-	(4,560)	(3,453)
Other borrowings	(4,088)	3,811	-	-	-	(4,084)	(4,361)
Finance leases	(5,930)	6,444	-	-	(253)	(4,926)	(4,665)
	(10,637)	11,208	2,840	(2,067)	(253)	(13,570)	(12,479)
Debt due in more than one year							
Bank loans	(238,518)	-	-	-	-	3,553	(234,965)
Other borrowings	(212,963)	-	-	-	-	4,084	(208,879)
Finance leases	(27,462)	-	-	-	(951)	4,926	(23,487)
	(478,943)	-	-	-	(951)	12,563	(467,331)
Total debt	(489,580)	11,208	2,840	(2,067)	(1,204)	(1,007)	(479,810)
Net debt	(422,777)	10,914	2,840	(2,067)	(1,204)	(1,007)	(413,301)

Other non cash movements represent amounts re-classified as being due within one year, amortisation of debt issue costs (£1,057,000); offset by debt issue costs of £50,000 that have been accrued as at 31 March 2002.

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28 Financial instruments

A discussion of the Group's treasury policy and its objectives and strategies for managing financial instruments is presented in the Finance Director's Report on page 11 above. This disclosure forms part of these financial statements, and accordingly, should be read in conjunction with this note.

Short term debtors and creditors, arising directly from the Group's operations have been excluded from the following disclosure.

FINANCIAL LIABILITIES

(a) Interest rate profile of financial liabilities

After taking into account the various interest rate swaps, the interest rate profile of the Group's financial liabilities as at 31 March 2002 was as follows:

	2002 £'000	2001 £'000
Fixed rate financial liabilities	332,571	340,201
Floating rate financial liabilities	149,919	151,831
Financial liabilities on which no interest is paid	436	459
	482,926	492,491

Financial liabilities shown above are all denominated in sterling and include:

- Bank loans and overdrafts amounting to £239.1 million (2001: £239.1 million);
- Other borrowings amounting to £213.2 million (2001: £217.1 million);
- Finance lease obligations of £28.2 million (2001: £33.4 million); and
- Other long term creditors amounting to £2.4 million (2001: £2.9 million)

Financial liabilities are shown net of unamortised issue costs amounting to £5.6 million (2001: £5.9 million).

Floating rate financial liabilities bear interest at rates based upon LIBOR, which is fixed in advance for periods of between one and twelve months.

The effect of the Group's interest rate swaps is to classify £104.05 million (2001: £105 million) of bank loans and £7.6 million (2001: £7.7 million) of finance leases as fixed rate financial liabilities as at 31 March 2002.

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(b) Fixed rate and non-interest bearing financial liabilities

	2002	2001
Weighted average annual interest rate	9.43%	9.41%
Weighted average period for which interest rate is fixed	11y 9m	12y 8m

The weighted average period for non-interest bearing liabilities as at 31 March 2002 was 2 years (2001: 2 years and 4 months).

(c) Maturity analysis of financial liabilities

The maturity profile of the carrying value of the Group's financial liabilities as at 31 March 2002 was as follows.

	2002 £'000	2001 £'000
In one year or less, or on demand	13,667	11,129
In more than one year but not more than two years	10,738	107,503
In more than two years but not more than five years	137,489	40,269
In more than five years	321,032	333,590
	482,926	492,491

UNDRAWN COMMITTED BORROWING FACILITIES

As at 31 March 2002, the Group had two undrawn committed borrowing facilities available amounting to £40 million. These can be further analysed as follows:

	2002 Floating rate £'000	2001 Floating rate £'000
Expiring within 1 year	5,000	5,000
Expiring between 1 and 2 years	-	-
Expiring in more than two years	35,000	-
	40,000	5,000

The £5 million facility is due to expire on 31 March 2003. There is an option that this facility will be extended at the discretion of the Lender. The £35 million facility is due to expire on 30 June 2004.

Both facilities incur a commitment fee at market rates.

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INTEREST RATE PROFILE OF FINANCIAL ASSETS

	2002 £'000	2001 £'000
Cash at bank and in hand (in accordance with FRS 1)	8,585	1,999
Short term deposits	58,613	64,104
Current asset investments	7	700
Other financial assets	2,200	2,875
	69,405	69,678
Floating rate	-	1,999
Fixed rate	67,198	64,104
Non-interest earning financial assets	2,207	3,575
	69,405	69,678

All financial assets are denominated in sterling.

Floating rate cash balances earn interest based on LIBOR. The fixed rate assets earn interest at rates between 2.75% and 4% per annum. Non-interest bearing assets primarily relate to long term trading debtors or current asset investments.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides a comparison, by category, of the carrying amounts and the fair values of the Group's financial instruments as at 31 March 2002 and 2001. Fair value is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates.

Excluded from the following analyses are contingent liabilities with respect to guarantees provided to certain subsidiaries. These are detailed in Note 35 below.

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	2002		2001	
	Book Value £'000	Fair Value £'000	Book Value £'000	Fair Value £'000
Bank loans and overdrafts	(239,114)	(239,114)	(239,137)	(239,137)
Other borrowings	(213,240)	(279,271)	(217,051)	(302,154)
Short term finance leases	(2,933)	(2,933)	(955)	(955)
Long term finance leases	(25,219)	(25,219)	(32,437)	(32,555)
Other financial liabilities	(2,420)	(2,420)	(2,911)	(2,911)
	(482,926)	(548,957)	(492,491)	(577,712)
Cash at bank and in hand	8,585	8,585	1,999	1,999
Cash on short term deposit	58,613	58,613	64,104	64,104
Current asset investments	7	7	700	843
Other financial assets	2,200	2,200	2,875	2,875
	69,405	69,405	69,678	69,821
Net financial liabilities	(413,521)	(479,552)	(422,813)	(507,891)

Summary of methods and assumptions

Interest rate swaps	Fair value is based on market price of comparable instruments at the balance sheet date. There is no material difference between the book and fair value of interest rate swaps as at 31 March 2002 or 31 March 2001.
Bank debt	The difference between the book value and fair value is considered to be immaterial. The bank debt is stated net of unamortised issue costs of £5.6 million, which would be charged in full to the profit and loss account in the event of an immediate refinancing of this debt.
Other loans	The fair value of the fixed rate term loans have been estimated based upon the discounted cash flows at current market rates as advised by the Public Works Loan Board for equivalent debt. The fair values of the variable rate loans approximate to their book values as interest rates are re-set each year to market rates.
Short term finance leases	The fair value of short-term finance leases (that is finance leases that are due to expire in less than one year) approximates to the book values of such instruments due to their short maturity dates.
Long term finance leases	The fair values of fixed rate long-term finance leases have been calculated by reference to discounted cash flows at prevailing market rates. There is no material difference between the fair value and book value of this debt. The fair value of variable rate finance leases approximates to book value as interest rates are re-set each year to market rates that are based upon LIBOR.
Cash, short term deposits and other financial assets	The fair values of these instruments are equal to their carrying values due as each instrument exhibits a short-term maturity date.
Current asset investments	Fair values approximate to quoted market values for each investment.

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29 Provisions for liabilities and charges

GROUP	Deferred Taxation (see below) £'000	Pension Provision (Note 37) £'000	Total £'000
At 1 April 2001	192	4,188	4,380
Prior year adjustment	1,328	1,097	2,425
Restated balances as at 1 April 2001	1,520	5,285	6,805
Profit and loss account	48	(93)	(45)
At 31 March 2002	1,568	5,192	6,760

The prior year adjustments represent the implementation of FRS 19 "Deferred Taxation", which is discussed in further detail below, and a correction in the classification of unfunded pension provisions at East Midlands and Bournemouth Airports, which were classified as creditors due in more than one year as at 31 March 2001.

The pension provision relates to unfunded pension liabilities that are outside the benefits provided by the Group's pension schemes.

DEFERRED TAXATION

The accounting standard FRS 19, requiring full provision for deferred taxation, has been adopted by the Group during the year ended 31 March 2002. The Group has adopted a policy of discounting.

	2002 Amount provided £'000	2001 Amount provided £'000
Accelerated capital allowances	40,044	37,828
Short term timing differences	(6,721)	(4,531)
Tax losses available	(1,976)	(1,976)
Undiscounted provision for deferred taxation	31,347	31,321
Discount	(29,779)	(29,801)
Discounted provision for deferred taxation	1,568	1,520

	2002 £'000
Provision at start of the year	1,520
Increase in discounted provision (see Note 9)	48
Provision at end of year	1,568

If investment properties were sold at their current market value, this would result in a potential deferred taxation liability of £20.8 million (2001: £16.5 million), which has not been provided for as the Group has not entered into any binding agreements to sell the revalued assets and has no intention to dispose of these assets. The liability disclosed is stated before indexation and any incidental costs of disposal.

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Revaluations of other operational assets have resulted in a potential maximum deferred taxation liability (before taking into account indexation, availability of roll-over relief and incidental costs of disposal) of £84.3 million (2001: £84.7 million), which again has not been provided for as the Group has not entered into any binding agreements to sell the revalued assets and has no intention to dispose of these assets.

30 Share capital

	Number	£'000
Authorised		
On incorporation – 204,280,000 ordinary shares of £1 each	204,280,000	204,280
At 31 March 2002	204,280,000	204,280
Allotted, called up and fully paid		
On incorporation – 2 ordinary shares of £1 each	2	-
28 March 2002 – 204,279,998 ordinary shares of £1 each	204,279,998	204,280
At 31 March 2002	204,280,000	204,280

The share capital was issued on 28 March 2002 in exchange for the shares in Manchester Airport PLC as described in the Directors' Report.

31 Reserves

GROUP	Revaluation reserve £'000	Profit and loss account £'000
At 1 April 2001	243,864	188,131
Revaluation surplus on revaluation of fixed assets	15,567	-
Transfer from revaluation reserve to profit and loss account	(13,812)	13,812
Loss for the year	-	(8,754)
At 31 March 2002	245,619	193,189

The transfer from revaluation reserve to the profit and loss account represents the difference between the depreciation charge for the year based on revalued amounts and the depreciation charge for the year based on cost.

COMPANY

	Profit and loss account £'000
On incorporation	-
Profit for the year	2,207
At 31 March 2002	2,207

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32 Reconciliation of movements in equity shareholders' funds

COMPANY

	Notes	2002 £'000
Profit for the financial year		3,207
Dividends		(1,000)
		2,207
New share capital issued	30	204,280
Net increase in equity shareholders' funds		206,487
Opening equity shareholders' funds on incorporation		-
Closing equity shareholders' funds		206,487

33 Capital commitments

	Group	
	2002 £'000	2001 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	24,652	51,658

Capital commitments relate primarily to development of the Ground Transport Interchange Project at Manchester Airport.

34 Grants

	Group	
	2002 £'000	2001 £'000
During the year to 31 March 2002 the Group made claims for and received government grants against approved capital expenditure amounting to:	219	420

35 Contingent liabilities

The Company has entered into a cross guarantee, up to a maximum of £20 million in aggregate, for any bank advances made to certain subsidiary undertakings in existence as at 31 March 2002. No loss is expected to arise from this arrangement.

The Group is currently finalising the amounts payable to contractors in respect of claims on the Runway 2 project at Manchester Airport. Any amounts in respect of these claims will be capitalised into the cost of construction of the runway.

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36 Other financial commitments

At 31 March 2002, the Group had annual commitments under non-cancellable operating leases as follows:

	2002		2001	
	Land £'000	Other £'000	Land £'000	Other £'000
GROUP				
Expiring between two and five years inclusive	-	279	-	434
Expiring in over five years	10,236	1,146	9,496	691
	10,236	1,425	9,496	1,125

The Company did not have any annual commitments under non-cancellable operating leases.

37 Retirement benefits

Under the transitional arrangements for the implementation of FRS 17, the Group continues to account for pensions in accordance with SSAP 24, although the additional disclosures required by FRS 17 are provided below.

SSAP 24 DISCLOSURE

The Manchester Airport Group PLC's employees participate in four defined benefit pension schemes and two money purchase defined contribution schemes. The four defined benefit schemes are as follows:

- The Greater Manchester Pension Fund;
- The East Midlands International Airport Pension Scheme;
- The Airport Ventures Pension Scheme; and
- The East Riding Pension Fund (Humberside Airport).

Total employers pension contributions for the Group during the year ended 31 March 2002 amounted to £6.7 million (2001: £4.9 million), which represented an average contribution rate of 10% (2001: 8.2%).

The Greater Manchester Pension Fund

The substantial majority of the employees of the Group participate in the Greater Manchester Pension Fund ("GMPF") administered by Tameside Borough Council. Of the total Group pension contributions noted above, some £4.8 million related to payments into the Greater Manchester Pension Fund.

The securities portfolio of the fund is managed by two external professional investment managers and the property portfolio is managed internally. Participation is by virtue of Manchester Airport PLC's status as an 'admitted body' to the Fund.

The last full valuation of the fund was undertaken on 31 March 2001 by an independent actuary. The fund was valued using the projected unit method. The purposes of the valuation were to determine the financial position of the fund and to recommend the contribution rate to be paid by Manchester Airport PLC and the other participating employers. The market value of the fund's assets at 31 March 2001 amounted to £6.3 billion (last valuation in 1998: £5.4 billion). The funding level of the scheme as measured using the actuarial method of valuation was 105%.

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The principal assumptions used were as follows:

Investment returns – Equities	6.5% per annum
Investment return – Bonds	5.5% per annum
Salary increases	4.3% per annum
Pensions increase/Price inflation	2.8% per annum

The costs of providing pensions are charged to the profit and loss account on a consistent basis over the service lives of the members. These costs are determined by an independent qualified actuary and any variations from regular costs are spread over the remaining working lifetime of the current members.

A provision of £4,248,000 (2001: £4,188,000) has been established in respect of additional unfunded pensions and similar benefits that are outside the scope of the GMPF. The increase in this provision is included in the total employer contributions noted above.

Other schemes

Full actuarial valuations were carried out on the other defined benefit schemes as follows:

- East Midlands International Airport Pension Scheme ("EMIA") – 5 April 1999;
- East Riding Pension Fund – 31 March 2001; and
- Airport Ventures Pension Scheme – 1 August 2001.

The aggregate market value of the assets in the EMIA scheme at the date of the latest actuarial valuation was £9.6m which represented approximately 91% of the liability for benefits that had accrued to that date after making full allowance for future earnings increases.

The other schemes are not significant to the Group and details of their valuations are included in their financial statements.

A provision of £944,000 (2001: £1,097,000) has been established in respect of unfunded pension benefits for certain categories of employees at East Midlands and Bournemouth Airports. These employees are required to retire from their current positions in advance of the normal retirement date, due to the physically demanding nature of their employment. On early retirement these employees are entitled to receive one-off lump sum payments. Provision for the estimated cost of the early retirement of these employees is made on a systematic basis over their service lives.

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FRS 17 DISCLOSURE

The additional disclosures required by FRS 17, during the transitional period, for the defined benefit schemes are set out below. They are based on the most recent actuarial valuations disclosed above, which have then been updated by independent professional qualified actuaries to take account of the requirements of FRS 17. The key assumptions used are as follows:

	GMPF	EMIA	East Ridings	Airport Ventures
	%	%	%	%
Rate of increase in salaries	4.5	4.5	4.5	4.5
Rate of increase of pensions in payment (<i>Note 1</i>)	3.0	3.0	3.0	3.0
Discount rate	6.1	6.1	6.1	6.1
Inflation assumption	3.0	3.0	3.0	3.0

Note 1: This refers to pensions in payment that increase in line with inflation. There are some elements of pensions in payment that increase at a fixed rate or do not increase at all.

The assets in the schemes and the expected long-term rate of return as at 31 March 2002:

	Rate of return	Value
	%	£'000
Equities and property	8.25%	141,300
Bonds	5.90%	34,100
Other	4.00%	18,800
		194,200

The following amounts at 31 March 2002 were measured in accordance with the requirements of FRS 17:

	GMPF	EMIA	East Ridings	Airport Ventures	Total
	£'000	£'000	£'000	£'000	£'000
Total market value of assets	175,200	14,100	3,300	1,600	194,200
Present value of scheme liabilities	(189,800)	(16,800)	(4,900)	(2,300)	(213,800)
Deficit in the scheme	(14,600)	(2,700)	(1,600)	(700)	(19,600)
Related deferred tax asset	4,380	810	480	210	5,880
Net pension liability	(10,220)	(1,890)	(1,120)	(490)	(13,720)

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If FRS 17 had been adopted in these financial statements the Group's net assets and profit and loss reserve at 31 March 2002 would have been as follows:

	£'000
Net assets excluding pension liabilities	643,088
Net pension liability	(13,720)
Net assets including pension liabilities	629,368

	£'000
Profit and loss reserve excluding pension liabilities	193,189
Net pension liability	(13,720)
Profit and loss reserve including pension liabilities	179,469

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38 Related party transactions

TRANSACTIONS INVOLVING MANCHESTER CITY COUNCIL

Manchester City Council is a related party to, and the ultimate controlling party of, The Manchester Airport Group PLC as the Council owns 55% of the share capital of the Company. During the year the Group entered into the following transactions with the Council.

As at the balance sheet date the amount of loans outstanding owed to Manchester City Council was £103,683,000 (2001: £105,342,000). The Manchester Airport Group PLC made loan repayments of £1,659,000 to Manchester City Council during the year and paid interest of £10,689,000.

Included in external charges are charges for rent and rates to Manchester City Council amounting to £22 million (2001: £20.2 million).

Contracts with Manchester City Council

During the year 1 April 2001 to 31 March 2002, the Group entered into a number of contractual arrangements with Manchester City Council. The types of work undertaken by Manchester City Council, together with the value of the work are listed below:

Design / fee work and minor works

Several contracts were awarded during the year to a value of £287,026 (2001: £98,556). Minor works relates to individual contracts below £10,000. This work is usually of a routine maintenance nature. The total value of the work for the year was £24,116 (2001: £94,523).

OTHER RELATED PARTY TRANSACTIONS

Seedcorn Investment Management is a Company owned by Paul Barraclough, a director of Airport Ventures Limited. During the year Seedcorn Investment Management charged Airport Ventures Limited and its subsidiaries £84,385 (2001: £113,305) for services provided on normal commercial terms. At as at 31 March 2002, the balance owing to Seedcorn Investments amounted to £7,052 (2001: £12,959).