

The Manchester Airport Group PLC
Directors' report and financial statements
for the year ended 31 March 2003

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The Manchester Airport Group PLC

Chairman's and Chief Executive's Foreword

During 2002-03 The Manchester Airport Group has continued to demonstrate its commitment to delivering shareholder value within a realistic, responsible and sustainable framework. This has been achieved against a backdrop of unprecedented challenges - some of the toughest the aviation industry has ever had to confront...and is still having to face today.

These included global terrorism, the war against terrorism, the build-up to war in Iraq, SARS and economic uncertainty; all had a major knock-on effect on the industry during the year. These circumstances have led to huge structural change in the market place and have caused a major rationalisation within the established traditional airlines and significant acceleration in the growth of the 'no frills' sector.

As a result of the programme of rigorous rationalisation carried out by the Group over the last two years, it is fair to say the Group's businesses have been able to weather the storm extremely effectively and respond to the challenges that have followed in its wake.

The restructuring that took place to reduce the cost base at Manchester Airport also enabled us to respond quickly and effectively to the plight of our customers. This has demonstrated the Group management's view that it must react quickly and decisively to the demands of the market place. Only in this way is the Group able to ensure the continuation of a profitable business, which in turn helps to secure existing jobs and deliver new ones.

While traffic at Manchester Airport dropped, compared with the previous year, it did not drop as significantly as was forecast. At East Midlands and Bournemouth Airports it grew strongly with year on year growth of 51% and 48% respectively.

Our service companies faced one of the most difficult trading years too...and some necessary, albeit difficult, decisions to make staff and operating cost reductions within Manchester Airport Aviation Services. The understandable initial reaction of the workforce was to oppose the proposed changes. Our hope is now that we can look forward to a more stable period within which we can begin to move the business forward from the firm foundations laid by the restructuring.

Another significant achievement during the year was the refocusing of our property development business, which included the acquisition of Ringway Developments PLC for £18.4m. The company owned the Holiday Inn Garden Court hotel at Manchester Airport and various plots of development land at Sharston in south Manchester. The hotel has subsequently been sold while the development land forms a base for our growing property development activity.

On top of all the challenges, Manchester Airport was also subjected to the CAA's Quinquennial Review, the process that establishes the price control formula for the years 2003-08. The outcome, announced in March 2003, was an annual aviation average price reduction of RPI minus 5%. Within this tight price framework the Airport must also deliver robust standards of service to its airline customers as defined in agreed Generic Service Standards. This is a major challenge and will require us to deliver greater efficiency at reduced cost.

Consequently, notwithstanding all the difficulties, changes and price regulation, we are pleased to report that all our airports turned in 'above budget' performances and that overall The Manchester Airport Group has performed well ahead of the realistic targets set for the year. This leaves the Group well-positioned to deal with, and counter, any further shockwaves that may hit the industry in the future.

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Having said that, tough trading conditions can be expected to continue, as a result of which the Group must continue to respond to any pressures in the same effective manner.

A detailed analytical review of airport processes has been commissioned with a view to achieving better utilisation of terminal space and facilities. Capital expenditure has been under tight control throughout the Group since the downturn in business following the increase in terrorist attacks. However significant expenditure has again been incurred on terminal facilities and baggage handling to ensure that service standards are maintained.

The Group's long term strategy continues to be one of controlled growth to meet the forecast increase in demand while delivering an acceptable return on capital employed in the businesses.

We also remain focused on minimising the impact of our operations on surrounding communities. Throughout the year we have continued to invest in energy efficiency, better waste treatment and air quality improvements. Mitigation works carried out in connection with Manchester's second runway also paid dividends during the year.

Investment in the local communities around Manchester Airport also continued throughout the year through the Community Development Fund which has now invested more than £1 million into amenities and schemes that enhance the environment and social well being. A Sound Insulation Grant Scheme has also been introduced at East Midlands Airport for local residents affected by aircraft noise.

As far as the outlook for the Group is concerned, the industry as a whole remains susceptible to the uncertainties of world affairs and the Group will be affected by such events. As a result we shall continue to exercise due caution to make sure we do not over extend. But at the same time we will strive to ensure that the Group's companies are in a position to capitalise on all worthwhile opportunities.

Our aim is to deliver a long term, profitable business growth within the world economic and political environment. We are confident that, having consolidated our existing position, we are in a strong position to take the Group forward.

Councillor Robert Howarth
Chairman
The Manchester Airport Group PLC

Geoff Muirhead
Group Chief Executive
The Manchester Airport Group PLC

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Finance Director's Report

Review of the year ended 31 March 2003

Group profit before interest and taxation (after exceptional items) was £48.9 million, representing an increase of 16% on the prior year.

Total airport business EBITDA¹ of £125.1 million represents growth of 1.7% compared to the prior year. This growth was driven in the face of increased competition and significant price pressures.

The following table presents the Group's trading results by business area and shows the increasing favourable impact of East Midlands and Bournemouth Airports, which were acquired in March 2001 and contribute 18% to the total airport EBITDA¹.

	2003 £'000	2002 £'000	% Change
Turnover			
Manchester Airport	237,848	242,038	-1.7%
East Midlands Airport	44,878	39,077	14.8%
Bournemouth Airport	11,139	10,014	11.2%
Humberside Airport	8,307	7,419	12.0%
Total airport businesses turnover	302,172	298,548	1.2%
Other commercial activities net of consolidation adjustments	25,981	22,816	13.9%
TOTAL GROUP TURNOVER	328,153	321,364	2.1%
EBITDA¹			
Manchester Airport	100,267	100,407	-0.1%
East Midlands Airport	20,680	19,611	5.5%
Bournemouth Airport	1,951	1,713	13.9%
Humberside Airport	2,218	1,257	76.5%
Total airport business EBITDA¹	125,116	122,988	1.7%
Unallocated central costs	(6,518)	(6,316)	3.2%
Other commercial activities net of consolidation adjustments	2,758	6,967	-60.4%
TOTAL GROUP EBITDA¹ BEFORE RESTRUCTURING COSTS	121,356	123,639	-1.8%
Depreciation charge and amortisation of goodwill	(61,208)	(61,598)	-0.6%
GROUP OPERATING PROFIT BEFORE RESTRUCTURING COSTS	60,148	62,041	-3.1%
Restructuring costs	(14,311)	(19,918)	-28.2%
Exceptional item	3,013	-	n/a
PROFIT BEFORE INTEREST AND TAXATION	48,850	42,123	16.0%
Net interest payable	(37,635)	(39,739)	-5.3%
PRE TAX PROFITS	11,215	2,384	370.4%

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

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Passenger volumes and turnover

Total passenger volumes for the Group, as shown below, showed a 4.6% increase on 2002 in what remains an extremely competitive market place with continued pressure on aviation prices. The ongoing impact of the events of 11 September 2001 and the impact of both the conflict in Iraq and the SARS epidemic in the final quarter of the financial year adversely affected demand for air travel. The largest downturn in demand was suffered by the international scheduled and charter sectors at Manchester Airport, which showed a combined 3% decline in passenger numbers compared to the previous financial year.

This reduction was offset by strong performances at East Midlands, Bournemouth and Humberside Airports. East Midland's volume grew by 51% largely as a result of the strong performance of the low cost carrier business. Both Bournemouth and Humberside also achieved volume growth in the charter markets.

	2003 No '000	2002 No '000	% Change
Manchester Airport	18,612	19,031	-2.2%
East Midlands Airport	3,659	2,420	51.2%
Bournemouth Airport	421	284	48.2%
Humberside Airport	500	440	13.6%
TOTAL PASSENGERS	23,192	22,175	4.6%

This underlying volume growth resulted in a £3.7 million (1.2%) increase in airport turnover. East Midlands and Bournemouth Airports contributed £56.0 million of turnover (2002: £49.1million), resulting in overall airport turnover of £302.2 million (2002: £298.5 million).

EBITDA before restructuring costs

Airport business EBITDA increased by £2.1 million (1.7%) in the financial year, principally as a result of the increasing contribution provided by East Midlands and Bournemouth Airports and an ability to both sustain revenues and control costs in the face of uncertain political and economic conditions.

The increase in airport EBITDA is offset by a decline of some £4.2. million in other commercial activities (net of consolidation adjustments). This was due to an expected decline in a number of non-core activities.

Depreciation and amortisation of goodwill

The Group's depreciation and amortisation charge has remained broadly constant during the year as no further revaluation of operational fixed assets has taken place during this financial year. The next triennial revaluation of operational assets is due at 31 March 2004. The impact of the annual revaluation of investment properties is described in the Balance Sheet section below.

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 in the previous financial year of some £20 million, the savings from which are detailed below. The final tranche of these programmes was implemented during this financial year at a further cost of £5.1 million.

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During the current financial year further operational reviews were undertaken and as a result a number of additional restructuring programmes were identified as being required in the car parking, engineering and motor transport businesses. The total cost of these schemes of some £8 million, has been provided in this financial year.

Other sundry management restructuring costs incurred during the year totalled £1.2 million.

The managerial, administrative and security restructurings have resulted in reduced operating costs of some £8.7 million during this financial year.

Exceptional item

Ringway Developments PLC was acquired in the first quarter of the financial year and its major asset, the Holiday Inn Garden Court hotel at Manchester Airport, was subsequently disposed of during the third quarter of the year. During the period of ownership, the Group made substantial changes to the operation, including, *inter alia*, terminating the franchise agreement, renegotiating the terms of the head lease and terminating the external management agreement. A combination of these changes and an uplift in market conditions resulted in the disposal generating an exceptional profit of some £3 million over the acquisition cost.

OTHER ASPECTS OF THE ACCOUNTS

Accounting policies

FRS 17 "Retirement Benefits" has introduced significant changes in accounting for pension schemes and the disclosure of pension scheme information. The Accounting Standards Board has deferred full implementation of this standard until 2006 as it is subject to harmonisation with international accounting standards. However, transitional disclosures are required this year, as they were in the last year, and are presented in Note 37 to the financial statements.

Further information is contained within the statement of accounting policies on pages 30 to 33 below.

Interest and investment income

Net interest payable reduced to £37.6 million from £39.7 million in 2002. This is principally due to lower net debt throughout the financial year. As described below, 68% of the Group's total debt, after taking account of the interest rate swap arrangements, is fixed. Variable rate bank debt was partially matched by variable rate cash deposits.

Taxation

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation	11,215	2,384
Taxation charge for the year	(5,526)	(6,138)
Post tax profit / (loss)	5,689	(3,754)
<i>Effective rate of tax</i>	<i>49%</i>	<i>257%</i>

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The tax charge during the year was £5.5 million, which represents an effective rate of tax of 49% based on the £11.2 million pre tax profits. A detailed reconciliation of the tax charge is presented in Note 9 to these financial statements.

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 £14 million. The effect of this on the Group tax rate is explained in Note 9.

The effective tax rate would be 22% of the pre tax profit if restated to an historical cost depreciation charge basis.

The introduction of FRS 19 'Deferred Tax' requires 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 deferred tax liabilities as permitted under FRS 19. 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 2003 were £33.6 million, which reduces to a liability of £2.5 million after discounting. The movement in the discounted deferred tax provision in the year is a charge of £0.9m.

Cash flow

The Group generated cash of £112.2 million (2002: £114.2 million) from operating activities before payment of net interest, reflecting the continuing strong underlying cash generation of the business.

Interest, taxation and dividends consumed £47.7 million (2002: £59 million) leaving net cash inflows of some £64.5 million (2002: £55.2 million) before capital expenditure and financing. This has been applied to investment in fixed assets and subsidiary undertakings of £55.6 million (2002: £44.3 million). In addition £15.3 million was generated from the sale of Ringway Hotels (Holdings) Limited, leaving a net inflow of £24.2million (2002: £11 million inflow), which is reflected in the movement in net cash and borrowings.

Balance sheet

The retained profit for the year of £0.2 million (2002: loss of £8.75 million) and the annual revaluation of investment properties by Drivers Jonas, independent Chartered Surveyors, (the value of which increased by £0.5 million) increased shareholders' funds by £0.7 million to £643.8million.

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 and focuses on monitoring working capital, managing external funding, capital expenditure requirements and investing excess cash to maximise returns.

It is the Group's policy to finance the development of its operations primarily with fixed and floating rate unsecured bank loans. To hedge 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, 68% (2002: 69%) of total financial liabilities have fixed interest rates.

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At the year end the net debt was £390m, which represents 61% of shareholders' funds and 3.2 times EBITDA. The net interest charge of £37.6m is covered 3.2 times by EBITDA.

The Group is required to maintain a level of cash within the business to ensure that it complies with regulatory liquidity ratios. The treasury team monitors the Group liquidity position and short-term cash requirements on a daily basis. Excess cash is invested primarily in fixed rate short-term deposits not exceeding three months. These cash balances provide a partial hedge against variable rate financial liabilities. At 31 March 2003 the Group cash balances were £78.3m and undrawn committed bank facilities amounted to £35m.

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 28, 65% (2002: 66%) of total borrowings were due to mature in more than five years, which includes 37% (2002: 40%) of total debt that is due for repayment in over ten years.

Philip Ridal

Group Finance Director
10 July 2003

The Manchester Airport Group PLC

Directors' Report for the year ended 31 March 2003

The Directors present their report and the audited financial statements of the Group for the year ended 31 March 2003.

Principal activities

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 airport commercial and retail activities.

Results, review of business and future developments

The consolidated results for the year are set out on page 24 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 served, with a reputation for quality, value for money, and a sustainable approach to development.

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

Dividends and transfers to reserves

The Directors recommend that a final dividend of £5,500,000 (2.69 pence per share) (2002: £5,000,000 (2.45 pence per share)) is declared. After taking account of these dividends, the retained profit for the year of £189,000 (2002: loss of £8,754,000) will be transferred to reserves.

Substantial shareholders

On 31 March 2003, 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

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The Board of Directors

As at 31 March 2003, The Manchester Airport Group PLC Board had twelve 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 2003 was as follows:

Councillor R Howarth	(Borough Council of Bolton)	Chairman (resigned 12 June 2003)
Councillor B Harrison	(Manchester City Council)	Deputy Chairman
Councillor M Hunter	(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	
Mr D Kennedy	External Non-Executive Director	(appointed Chairman 12 June 2003)

Changes to the Board of Directors since the year end

On 12 June 2003 Councillors C Nangle and M Hunter resigned from the Board and Councillor D Lancaster was appointed.

Following the retirement of Councillor R Howarth as Chairman of the Board on 12 June 2003, Mr D Kennedy was appointed as Chairman of the Board.

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.

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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 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 business briefings are cascaded throughout the organisation to communicate key business and operational issues and there is a Group wide in-house newspaper, which is produced on a monthly basis.

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 2003 was 33 days (2002: 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 £252,000. It is the Group's policy not to make contributions to political parties.

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

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 16 March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company 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
10 July 2003

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Report on Corporate Governance

The Group is committed to high standards of Corporate Governance. It has considered the provisions of the Combined Code: Principles of Good Governance and the Code of Best Practice ("the Code") and seeks to follow the key principles while having due regard for its non-listed status. The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal controls and for the review to cover all controls including financial, operational, compliance and risk management. *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull Guidance) was published in September 1999. The implementation of the Turnbull Guidance in respect of the Company is covered in more detail in the section on Internal Control below.

During the year two reports relating to Corporate Governance were issued by the Financial Reporting Council (FRC), these are the Higgs review of non-executive directors and the Smith report on Audit Committees. The FRC has set up a working group to produce a revised draft of the Combined Code that it is anticipated will incorporate the substance of both the Higgs and Smith reports. The Company will review its corporate governance standards when the revised Combined Code comes into effect.

COMPOSITION OF THE BOARD OF DIRECTORS

The Board of the Company comprises three Executive Directors and nine Non-Executive Directors, six of whom 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 11 above.

The roles of the Chairman and Chief Executive are separate and clearly defined. Mr D Kennedy was appointed as the Non-Executive Chairman on 12 June 2003.

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 meets formally at least eleven times a year and also meets on additional occasions to consider specific business matters.

Appointments Panel

The Group 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 members of the Remuneration and Review Committee are as follows:-

Margaret Salmon (Chair)
John Hancock
Claire Nangle
Robert Howarth

The terms of reference, as established during the year, for this committee are as follows:

- To determine remuneration (including bonuses and long term incentives), pension benefits, terms and conditions of employment for all Executive Directors in the Group, ensuring that there is consistency in pay strategy;
- To review service contracts, pension arrangements and employee benefits for the Manchester Airport Group;
- Together with the Chairman and Deputy Chairman of The Manchester Airport Group PLC to set annual performance targets for the Group Chief Executive and to review the performance targets set by the Group Chief Executive for the Executive Directors of the Group;
- To review and appraise the performance of the Group Chief Executive against targets and to monitor the appraisal carried out by the Group Chief Executive in respect of the Executive Directors of the Group.

The Remuneration and Review Committee meets at least twice a year and at other times as it sees fit.

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 strategy and dividend policy;
- Group capital programme; and
- Financial Results.

The Shareholders' Committee meets 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 in general meeting.

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ACCOUNTABILITY AND AUDIT

Audit Committee

The Audit Committee meets at least twice a year and is chaired by David Kennedy. Brian Harrison is a member of the Audit Committee; other companies within the Group are represented by Michael Medlicott, Andy Meehan, Kath Robinson, and Charles Hinds who are also members. 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.

Control Environment

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 is undertaken to update the business strategies and key business objectives;

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- Preparation and Board approval of revised forecasts during the year;
- 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 business plans;
- 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.

Risk Assessment

In October 2002 the Board established a programme of work to assess the Group's internal control and risk management procedures against the requirements of the Combined Code. The Group Chief Executive was requested to undertake a review of internal processes in order to ensure that the Group would be fully compliant with the Turnbull Guidance on the Combined Code. In addition, external consultants carried out an independent benchmarking review of the Group's Internal Audit function.

The review of internal processes was managed on a project basis with the Group Chief Executive being the Project Sponsor. The objective of the review was to assess the current level of compliance with the Turnbull Guidance and to implement a sound system of internal control that is embedded within the Group's day to day operations and that will add value to the Group and Shareholders.

A Risk Steering Committee comprising representatives from each company and operating division within the Group was established with responsibility for delivery of the following objectives:

- identification of current and future sources of risks;
- evaluation and prioritisation of key risks for the Group and each company/trading division;
- the design of appropriate procedures to manage and monitor risks that are tailored to the needs of the Group

External consultants were appointed to undertake a review of the current risk process and to make best practice recommendations and assist with the implementation of a risk-based system of internal control.

The Risk Steering Committee has developed a risk management statement that sets out the Manchester Airport Group's approach to risk, as follows:

"It is the aim of the Manchester Airport Group to promote a culture where as a matter of good business practice both risk and opportunity are identified and managed, thereby ensuring more informed and effective business decisions are made and the Group either achieves or exceeds its objectives and targets."

To date:

- key risks in each company/trading division have been identified, evaluated and recorded on risk registers;
- controls for key risks have been put in place;
- a Group-wide risk management policy which has been signed off by the Group Board has been developed which includes a business case for risk management and critical success factors for change;
- a consistent risk methodology which is aligned to business objectives and includes risk assessment criteria, a risk model (categories) and gross, net and control effectiveness has been developed;
- senior managers have attended training and risk awareness seminars organised by external consultants.

The Manchester Airport Group PLC

A framework for future risk management and monitoring has been developed with each company/trading division having devised its own action and implementation plan and a formal system for reporting and managing risk has been proposed:

- each company/trading division will receive reports on risk management on a quarterly basis;
- the Group Audit Committee will receive reports on risk management biannually;
- the Group Board will receive reports on risk management on an annual basis

The role of risk assurance will be embedded in the Group structure with the appointment of the Head of Risk Assurance; this was one of the key recommendations of the strategic review of the Internal Audit function. Key challenges for the post that will report to the Group Chief Executive will be to define the Group's risk appetite, integrate formal risk assessment in key division processes and to develop a Risk and Control Assurance Action Plan.

The Board can now confirm that enhanced risk management procedures have promoted greater awareness and that there is an ongoing process for the identification, evaluation and management of significant risks faced by the Group.

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 appropriate 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

Directors' Remuneration Report

The Directors' Remuneration Report Regulations 2002 ("the Regulations") came into force during August 2002 and are effective for listed companies with financial years ending on or after 31 December 2002. As a matter of best practice the Group has decided to implement the Regulations, as are appropriate to the Group's circumstances.

This report covers the remuneration of Executive and Non-Executive Directors and related matters. This part of the Remuneration Report is unaudited.

Remuneration Committee terms of reference

The terms of reference for the Committee are set out on page 15.

Remuneration Committee membership and advisers

During the year, the members of the Remuneration Committee, any two of whom may form a quorum, comprised Ms M Salmon (Chair), Mr J Hancock, Councillor R Howarth and Councillor C Nangle.

In considering the matters within their remit, the Committee takes account of recommendations from the Chief Executive and is advised by the Head of Group Human Resources and Organisational Development.

The Committee received two reports commissioned from Towers Perrin (an independent senior management benefits consultancy) relating to benchmarking and remuneration policy options.

Remuneration policy

The objective of the remuneration policy in respect of the Executive Directors and other senior executives is to offer remuneration packages which:

- allow the Group to attract, motivate and retain senior executives of high calibre who are capable of delivering the Group's objectives;
- link rewards to both individual and corporate performance, responsibility and contribution.

This policy seeks to provide total remuneration packages that are competitive in the markets in which executives are based and which assist in attracting and retaining high calibre executives.

Remuneration packages comprise:

- base salaries, which are benchmarked using external consultants and published survey data, allowing informed comparisons with companies of similar size and complexity. Individual performance and any changes in responsibilities are also taken into account.
- discretionary bonuses which are payable to the Executive Directors subject to the fulfilment of certain performance criteria. The Remuneration Committee agrees the amount of performance bonus and the ongoing criteria are examined to ensure that they remain focused upon motivating directors to enhance individual performance and create shareholder value.
- other benefits include a fully expensed car, or an equivalent cash alternative, in addition to permanent health insurance, critical illness cover and death in service life cover.
- all Executive Directors are entitled to join the Group's pension scheme, or if preferred, to receive payments of a fixed percentage of salary into an approved pension scheme.

The Manchester Airport Group PLC

Executive Directors' base salaries and annual bonuses

The base salaries of Executive Directors are reviewed annually, having regard to personal performance, company performance, affordability and competitive market practice as determined by external research. In 2002/03 the Executive Directors participated in the Manchester Airport Group Executive Bonus Scheme. Subject to satisfactory personal performance and the achievement of personal targets, the Executive Directors could earn a maximum bonus of 25% of base salary.

For Group Executive Directors and the Managing Director of Manchester Airport Developments Limited, bonus payments were calculated with reference to Group earnings before tax and group return on capital employed. For other Divisional Managing Directors 70% of their bonus payments were calculated by reference to divisional earnings before interest and tax and divisional return on sales, the remaining 30% relating to the Group targets, with the exception of the Managing Director of Manchester Airport Aviation Services Limited, for whom the relevant percentages were 60% and 40% respectively.

No elements of remuneration, other than base pay, are pensionable.

Executive Directors' pension entitlements and benefits

The Executive Directors, except for Mr P M Ridal, are members of the Greater Manchester Pension Fund. The scheme is a defined benefit scheme and also provides for life assurance cover and dependents' pensions. The Executive Directors have a normal retirement age of 65 and accrue pension rights which are linked to the length of pensionable service and to final pensionable salary.

The Group makes contributions to a personal pension arrangement on Mr P M Ridal's behalf.

Executive Directors' service contracts

The Group's policy is that directors will be employed with a notice period of twelve months.

External directorships

Executive Directors are not permitted to accept external directorships without the prior approval of the Board.

Non-Executive Directors

The External Non-Executive Directors receive fees for their services but do not participate in any of the incentive or benefit schemes of the Group.

The Shareholders, on the recommendation of the Appointments Panel determines the remuneration of Non-Executive Directors.

The Board's current policy with regard to Non-Executive Directors is that appointments should be for a period of two years with provision for a review after twelve months.

The Manchester Airport Group PLC

Individual aspects of remuneration were as follows:

	Salary/ Fees	Car cash alternative	Bonuses	Benefits in Kind	Total Emoluments 2003	Total Emoluments 2002
	£'000	£'000	£'000	Note 1 £'000	Note 2 £'000	Note 2 £'000
Executive Directors						
Mr G Muirhead	257	-	49	18	324	270
Ms R Burns	190	-	37	17	244	168
Mr P M Ridal	190	12	37	1	240	142
Non-Executive Directors						
Ms M Salmon (Note 3)	23	-	-	-	23	4
Mr J Hancock (Note 3)	23	-	-	-	23	4
Mr D Kennedy (Note 4)	23	-	-	-	23	-
	706	12	123	36	877	588

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) *Emoluments for Ms R Burns and Mr P M Ridal in 2002 are in respect of the period from 21 June 2001 to 31 March 2002.*
- (3) *Ms M Salmon and Mr J Hancock were both appointed on 24 January 2002. For the year ended March 2002 their remuneration is included from that date.*
- (4) *Mr D Kennedy was appointed on 6 April 2002.*

Bonuses paid to Executive Directors for the years ended 31 March 2003 are in accordance with the criteria outlined above. The Non-Executive Directors appointed by local authority shareholders receive no remuneration or fees (2002: £nil).

The Manchester Airport Group PLC

Pensions

All of the Executive Directors, apart from Mr P M Ridal, are members of the Greater Manchester Pension Fund. During the year, the Company made contributions of £30,548 (2002: £nil) to a personal pension arrangement on Mr P M Ridal's behalf.

Pension entitlements and corresponding increases in accrued lump sums during the year were as follows:

	Pensionable Service at 31 March 2003	Accrued pension at 31 March 2003	Accrued pension at 31 March 2002	Accrued lump sum at 31 March 2003	Accrued lump sum at 31 March 2002
	Years	£'000	£'000	£'000	£'000
Mr G Muirhead	14.50	50	40	66	120
Ms R Burns (<i>Note 1</i>)	16.58	39	32	118	97

Notes

(1) *Ms R Burns pensionable service with the Greater Manchester Pension Fund at 31 March 2003 includes 10 years and 3 months from her employment with Manchester City Council.*

(2) *Voluntary contributions paid by Directors and resulting benefits are not shown in the above table.*

Ms M Salmon

Chair of the Remuneration and Review Committee

10 July 2003

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 note of group historical cost profits, the reconciliation of movements in group equity shareholders' funds and 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.

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

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Chairman and Chief Executive's Foreword, the Finance Director's Report, the Directors' Report, the Report on Corporate Governance, and the Report on Directors' Remuneration.

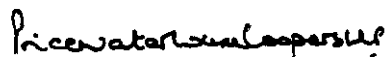
Basis of audit opinion

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 judgments 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 2003 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester

10 July 2003

The Manchester Airport Group PLC

Consolidated profit and loss account for the year ended 31 March 2003

	Notes	2003 £'000	2002 £'000
Turnover			
Continuing activities	1	326,017	321,364
Acquisition	1	2,136	-
Total Group turnover		328,153	321,364
Operating profit before restructuring costs		60,148	62,041
Restructuring costs	2	(14,311)	(19,918)
Operating profit			
Continuing activities	2	45,730	42,123
Acquisition	2	107	-
Total Group operating profit		45,837	42,123
Exceptional item	3	3,013	-
Interest receivable and similar income	6	2,798	3,640
Interest payable and similar charges	7	(40,433)	(43,379)
Profit on ordinary activities before taxation	8	11,215	2,384
Taxation on profit on ordinary activities	9	(5,526)	(6,138)
Profit / (loss) on ordinary activities after taxation		5,689	(3,754)
Equity dividends	11	(5,500)	(5,000)
Retained profit / (loss) for the financial year	31	189	(8,754)

The Manchester Airport Group PLC

Statement of group total recognised gains and losses for the year ended 31 March 2003

	Notes	2003 £'000	2002 £'000
Profit / (loss) for the financial year		5,689	(3,754)
Unrealised surplus on revaluation of fixed assets	31	535	15,567
Total gains recognised during the year		6,224	11,813

Note of group historical cost profits for the year ended 31 March 2003

	Notes	2003 £'000	2002 £'000
Reported profit on ordinary activities before taxation		11,215	2,384
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	31	13,968	13,812
Historical cost profit on ordinary activities before taxation		25,183	16,196
Historical cost profit for the year retained after taxation and dividends		14,157	5,058

Reconciliation of movements in group equity shareholders' funds for the year ended 31 March 2003

	Notes	2003 £'000	2002 £'000
Profit / (loss) for the financial year		5,689	(3,754)
Dividends	11	(5,500)	(5,000)
		189	(8,754)
Unrealised surplus on revaluation of fixed assets	31	535	15,567
Net change in equity shareholders' funds		724	6,813
Equity shareholders' funds as at 1 April		643,088	636,275
Equity shareholders' funds as at 31 March		643,812	643,088

The Manchester Airport Group PLC

Consolidated balance sheet as at 31 March 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Intangible assets	13	2,471	2,789
Tangible assets	14	1,115,382	1,134,492
Investments	15	2,912	2,298
		1,120,765	1,139,579
Current assets			
Stocks	17	4,118	2,112
Debtors	18	34,870	39,310
Investments	19	-	7
Cash at bank and in hand	20	78,298	67,198
		117,286	108,627
Creditors: amounts falling due within one year	21	(97,961)	(101,543)
Net current assets		19,325	7,084
Total assets less current liabilities		1,140,090	1,146,663
Creditors: amounts falling due after more than one year	22	(488,189)	(496,815)
Provisions for liabilities and charges	29	(8,089)	(6,760)
Net assets		643,812	643,088
Capital and reserves			
Called up share capital	30	204,280	204,280
Revaluation reserve	31	232,186	245,619
Profit and loss account	31	207,346	193,189
Equity shareholders' funds		643,812	643,088

The financial statements on pages 24 to 67 were approved by the Board of Directors on 10 July 2003 and signed on its behalf by:

David Kennedy

David Kennedy
Chairman

Geoff Muirhead

Geoff Muirhead
Group Chief Executive

The Manchester Airport Group PLC

Company balance sheet as at 31 March 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	14	125	-
Investments	15	318,089	207,537
		318,214	207,537
Current assets			
Debtors	18	15,637	-
Cash	20	52,383	-
		68,020	-
Creditors: amounts falling due within one year	21	(83,881)	(1,050)
Net current liabilities		(15,861)	(1,050)
Total assets less current liabilities		302,353	206,487
Creditors: amounts falling due after more than one year	22	(96,319)	-
Net assets		206,034	206,487
Capital and reserves			
Called up share capital	30	204,280	204,280
Profit and loss account	31	1,754	2,207
Equity shareholders' funds	32	206,034	206,487

The financial statements on 24 to 67 were approved by the Board of Directors on 10 July 2003 and signed on its behalf by:

David Kennedy

David Kennedy
Chairman

Geoff Muirhead

Geoff Muirhead
Group Chief Executive

The Manchester Airport Group PLC

Consolidated cash flow statement for the year ended 31 March 2003

	Notes	2003 £'000	2002 £'000
Net cash inflow from operating activities		112,230	114,190
Returns on investments and servicing of finance			
Interest received		2,710	3,656
Interest paid		(37,535)	(39,349)
Issue costs of new bank loans	27	(9)	(2,840)
Interest element of finance lease rentals		(1,688)	(1,998)
Net cash outflow from returns on investment and servicing of finance		(36,522)	(40,531)
Taxation			
UK corporation tax paid		(6,178)	(11,225)
Cash outflow from taxation		(6,178)	(11,225)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(51,093)	(42,142)
Sale of tangible fixed assets		6,519	3,705
Additions to fixed asset investments		(1,153)	(1,863)
Grants received		4,569	219
Net cash outflow from investing activities		(41,158)	(40,081)
Acquisitions			
Purchase of subsidiary undertaking	12	(14,188)	(4,200)
Acquisition costs		(269)	-
Net cash outflow from acquisitions		(14,457)	(4,200)
Disposals			
Disposal of shares in business held exclusively for subsequent resale	3,12	11,119	-
Repayment of loan due from business held exclusively for subsequent resale	12	4,542	-
Disposal costs	3	(355)	-
Net cash inflow from disposals		15,306	-
Equity dividends paid			
Ordinary dividends		(5,000)	(7,239)
Net cash inflow before use of liquid resources and financing		24,221	10,914
(Increase) / decrease in short term deposits with banks	27	(4,383)	5,491
Receipts from current asset investments	27	7	693
Net cash (outflow) / inflow from management of liquid resources	27	(4,376)	6,184
Financing			
Bank loans raised	27	-	95,000
Bank loans repaid	27	(3,985)	(95,953)
Other loan repayments	27	(4,066)	(3,811)
Capital element of finance lease payments	27	(4,543)	(6,444)
Net cash outflow from financing	27	(12,594)	(11,208)
Increase in net cash	27	7,251	5,890

The Manchester Airport Group PLC

Reconciliation of operating profit to net cash inflow from operating activities

	2003 £'000	2002 £'000
Operating profit before restructuring costs	60,148	62,041
Restructuring costs	(14,311)	(19,918)
Operating profit	45,837	42,123
Depreciation on tangible fixed assets	60,890	61,280
Profit on disposal of tangible fixed assets	(940)	(2,875)
Loss on disposal of fixed asset investments	-	192
Amortisation of goodwill	318	318
Amounts written off fixed asset investments	389	1,487
Provision against profits from investments	-	1,240
Decrease in stocks	1,475	119
Decrease in debtors	8,670	1,449
Release of grants	(608)	(628)
Decrease in creditors	(3,813)	(5,286)
(Decrease) / increase in restructuring accrual	(431)	14,864
Increase / (decrease) in provisions	443	(93)
Net cash inflow from operating activities	112,230	114,190

Reconciliation of net cash flow to movement in net debt

	Notes	2003 £'000	2002 £'000
Increase in cash in year	27	7,251	5,890
Cash outflow / (inflow) from management of liquid resources	27	4,376	(6,184)
Cash outflow from movement in debt (including issue costs paid)		12,603	14,048
Change in net debt resulting from cash flows		24,230	13,754
New finance leases / HP agreements	27	-	(1,204)
Movement in accrued debt issue costs	27	-	(2,017)
Other non-cash movements	27	(948)	(1,057)
Movement in net debt		23,282	9,476
Net debt at 1 April	27	(413,301)	(422,777)
Net debt at 31 March	27	(390,019)	(413,301)

Other non-cash movements 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 were prepared in accordance with the principles of merger accounting. Accordingly, the consolidated accounts comprised 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.

Minority interests are not recognised where subsidiaries are in a net liabilities position.

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.

The Manchester Airport Group PLC

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 to depreciated gross replacement cost.

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

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

Assets depreciated over a period in excess of 50 years are reviewed for impairment on an annual basis.

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.

It is not possible to quantify the depreciation that would otherwise have been charged.

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.

The Manchester Airport Group PLC

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.

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.

The Manchester Airport Group PLC

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.

Pension costs

The Group participates in several defined benefit and defined contribution schemes, which are contracted out of the state scheme. The Group's contributions to defined benefit schemes, which are made in accordance with the recommendations of independent actuaries, are charged against profits in accordance with Statement of Standard Accounting Practice number 24. Contributions to defined contribution schemes are charged in the year in which the contributions are made. Provisions are made for the capital cost of unfunded pension liabilities.

The Manchester Airport Group PLC

Notes to the financial statements for the year ended 31 March 2003

1 Turnover

	Continuing Operations	Acquisition	Total	
	2003 £'000	2003 £'000	2003 £'000	2002 £'000
Aviation income	163,233	-	163,233	167,320
Commercial income				
Baggage and freight handling	21,979	-	21,979	20,288
Car parking	34,642	-	34,642	31,443
Property and property related income	28,222	2,136	30,358	33,666
Concessions	49,175	-	49,175	51,911
Other	28,766	-	28,766	16,736
Total commercial income	162,784	2,136	164,920	154,044
Total income	326,017	2,136	328,153	321,364

Turnover is predominantly earned within the United Kingdom.

The Manchester Airport Group PLC

2 Operating profit

	Continuing Operations 2003 £'000	Acquisitions 2003 £'000	Total 2003 £'000	2002 £'000
Turnover	326,017	2,136	328,153	321,364
Net staff costs				
Wages and salaries	64,570	256	64,826	67,788
Social security costs	4,925	18	4,943	5,209
Other pension costs	6,099	14	6,113	6,748
	75,594	288	75,882	79,745
Depreciation and amortisation	61,196	12	61,208	61,598
External charges before restructuring costs	129,186	1,729	130,915	117,980
Operating profit before restructuring costs	60,041	107	60,148	62,041
Restructuring costs:				
Security staff reorganisation	4,323	-	4,323	16,395
Manchester Airport management restructure	763	-	763	3,523
Other restructurings	9,225	-	9,225	-
Total restructuring costs	14,311	-	14,311	19,918
Operating profit	45,730	107	45,837	42,123

Staff costs shown above are stated net of £583,000 (2002: £332,000), which has been capitalised into the cost of fixed assets.

Restructuring costs

The exceptional restructuring costs incurred during the year relate to the reorganisation of the airport security, car parking, engineering and motor transport functions 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.

3 Exceptional item

As further described in Note 12, the exceptional item relates to the gain on the disposal of Ringway Hotels (Holdings) Limited. The disposal is exempt from capital gains tax by virtue of the 'Substantial Shareholdings Exemption' introduced in the Finance Act 2002.

The Manchester Airport Group PLC

4 Employee information

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

	2003 Number	2002 Number
By activity		
Administration	419	517
Operational	1,764	1,924
Baggage handling	669	551
	2,852	2,992

5 Directors' emoluments

Further detail of directors' emoluments and a description of the Group's remuneration policy are set out on pages 19 to 22 in the Remuneration Report.

	2003 £'000	2002 £'000
Aggregate emoluments	877	588

Retirement benefits are accruing to two Directors (2002: two) under a defined benefit scheme.

Highest paid director

	2003 £'000	2002 £'000
Aggregate emoluments and benefits	324	270
Defined benefit scheme:		
Accrued pension at end of year	50	40
Accrued lump sum at end of year	66	120

All emoluments throughout the year, were paid by Manchester Airport PLC.

The Manchester Airport Group PLC

6 Interest receivable and similar income

	2003 £'000	2002 £'000
Income from fixed asset investments	66	-
Bank interest receivable	2,732	3,640
	2,798	3,640

7 Interest payable and similar charges

	2003 £'000	2002 £'000
Interest payable on bank loans and overdrafts	17,065	18,256
Interest payable on finance leases	1,582	2,723
Interest payable on other borrowings	20,838	21,343
Amortisation of issue costs of bank loans	948	1,057
	40,433	43,379

8 Profit on ordinary activities before taxation

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation is stated after charging / (crediting):		
Amortisation of goodwill of subsidiary undertakings	318	318
Release of capital based grants	(608)	(628)
Auditors' remuneration:		
Group audit fees	159	135
Non-audit services		
Taxation advice	243	283
Post acquisition integration and completion account services	4	95
Executive recruitment	-	129
Pensions advice	28	26
Hire of plant and machinery – operating leases	2,080	867
Hire of other assets – operating leases	10,314	9,754
Depreciation of tangible fixed assets:		
Owned assets	55,808	52,969
Leased assets	5,082	8,311
Profit on disposal of tangible fixed assets	(940)	(2,875)
Loss on disposal of fixed asset investments	-	192
Amounts written off fixed asset investments	389	1,487
Provision against profits due from fixed asset investments	-	1,240

Auditor's remuneration includes £11,000 (2002: £10,000) in respect of the audit of the Company.

The Manchester Airport Group PLC

9 Taxation

	Notes	2003 £'000	2002 £'000
Current taxation			
UK Corporation tax on profits for the year		4,687	6,025
Adjustment in respect of prior year		(47)	65
Total current tax (see reconciliation below)		4,640	6,090
Deferred taxation			
Origination and reversal of timing differences and movement in discount factor	29	886	48
Total deferred taxation	29	886	48
Total tax charge for the year		5,526	6,138

Factors affecting the current tax charge for the year

The tax for the year ended 31 March 2003 is higher than the standard rate of corporation taxation in the UK of 30%. A detailed reconciliation is set out in the following table.

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation	11,215	2,384
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	3,364	715
Effect of:		
Uplift in depreciation on revalued assets	4,200	4,290
Restructuring costs not deductible for tax purposes	(127)	1,451
Other expenses that are not deductible for tax purposes	1,535	926
Capital allowances in excess of historical depreciation	(4,164)	(2,249)
Short term timing differences	803	892
Tax exempt sale of shares in Ringway Hotels (Holdings) Limited	(904)	-
Losses utilised	(20)	-
Adjustments to prior year tax charge	(47)	65
Group current tax charge for the year (above)	4,640	6,090

The Manchester Airport Group PLC

Factors affecting the tax charge in future years

The Group's current tax charge of £4.64 million when compared to pre-tax profits of £11.215 million, results in an effective tax rate of 41% compared to the standard rate of corporation tax in the UK of 30%. As shown above the uplift in depreciation following the revaluation of operating assets is offset by capital allowances in excess of historical depreciation. The expected favourable impact of allowances for restructuring costs relating to 2002 has been offset by additional restructuring costs provided for during the year that were not allowable for tax in 2003. Expenditure not deductible for tax purposes predominantly represents legal and professional fees and other sundry expenditure of a capital nature.

The impact of the revaluation depreciation will always result in overall higher current tax as a percentage of pre-tax profits. Based upon the current capital expenditure plans, capital allowances will continue to be in excess of the historical cost depreciation and therefore reduce the tax charge in future years

The Group's deferred tax charge is more difficult to predict as it is impacted by changes in interest rates and the capital expenditure programme. Based upon the Group's current capital expenditure plans, it is likely that the undiscounted deferred tax liability will increase and not reverse in the short term, though movements in the discount rates may affect whether a provision will actually need to be recognised.

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. As shown in Note 32, the profit attributable to the shareholders includes a loss of £6,353,000, before dividends payable, dealt with in the financial statements of the Company.

11 Dividends

	2003 £'000	2002 £'000
Ordinary		
Final dividend declared of 2.69 pence (2002: 2.45 pence) per share	5,500	5,000

The Manchester Airport Group PLC

12 Acquisition

On 11 April 2002 the Group acquired the entire issued share capital of Ringway Developments PLC for a total consideration of £18,360,000. This acquisition has been accounted for using the acquisition method of accounting.

The analysis of net assets acquired and the fair value to the Group is as follows:

	Book value £'000	Other £'000	Revaluation £'000	Fair value to the Group £'000
Tangible fixed assets	27	-	-	27
Development work in progress	3,107	381	-	3,488
Debtors	8,834	(29)	-	8,805
Assets held exclusively for subsequent resale	8,562	-	(1,080)	7,482
Creditors: amounts falling due within one year	(1,275)	(167)	-	(1,442)
	19,255	185	(1,080)	18,360
Consideration:				
Cash				14,188
Release of seller's liability				4,172
				18,360
Goodwill arising				-

Assets held exclusively for subsequent resale represent the net assets of Ringway Hotels (Holdings) Limited, a wholly-owned subsidiary of Ringway Developments PLC, and its subsidiary Ringway Hotels Limited. These businesses were disposed of on 10 October 2002.

In accordance with FRS 9 Subsidiary Undertakings, the results of these entities have not been consolidated. The profit arising from the subsequent sale of these entities has been shown as an exceptional item and is described in Note 3 to these financial statements.

The other adjustments represent:

- the restatement of development work in progress to market value
- the restatement of debtors to the expected recoverable amount
- the recognition of a liability for various staff-related costs

The revaluation represents the restatement of assets held exclusively for resale to market value at the date of acquisition.

Consideration comprised cash of £14.1 million and the waiving of Ringway Developments PLC's liability to undertake remedial works on a building held by Manchester Airport PLC under a finance lease. This has been reflected by recognising a credit against the original cost of the building, as shown in Note 14 'Tangible fixed assets'.

The audited accounts of Ringway Developments PLC for the year ended 31 March 2002 showed a profit before taxation of £39,000.

The Manchester Airport Group PLC

13 Intangible fixed assets

GOODWILL	£'000
Cost	
At 31 March 2002 and 31 March 2003	3,493
Amortisation	
At 31 March 2002	704
Charge for year	318
At 31 March 2003	1,022
Net book value	
At 31 March 2003	2,471
At 31 March 2002	2,789

The Manchester Airport Group PLC

14 Tangible fixed assets

GROUP

	Freehold land and 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 2002	227,408	268,975	269,623	125,991	265,233	14,046	67,901	28,041	1,267,218
Reclassification	-	-	-	-	(33)	33	-	-	-
Additions	2,053	91	815	150	18,071	2,679	-	26,987	50,846
Transfer from investments	150	-	-	-	-	-	-	-	150
Disposals	(3,005)	(437)	-	(42)	(5,380)	(998)	-	(559)	(10,421)
Adjustment*	-	-	-	-	-	-	(4,172)	-	(4,172)
Revaluation	535	-	-	-	-	-	-	-	535
At 31 March 2003	227,141	268,629	270,438	126,099	277,891	15,760	63,729	54,469	1,304,156
Depreciation									
At 1 April 2002	1,396	11,407	9,256	6,206	49,288	6,445	48,728	-	132,726
Charge for the year	3,261	7,896	7,778	5,817	28,635	2,421	5,082	-	60,890
Disposals	(24)	(437)	-	(42)	(3,389)	(950)	-	-	(4,842)
Reclassifications	-	-	-	-	(2)	2	-	-	-
At 31 March 2003	4,633	18,866	17,034	11,981	74,532	7,918	53,810	-	188,774
Net book value									
At 31 March 2003	222,508	249,763	253,404	114,118	203,359	7,842	9,919	54,469	1,115,382
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

* the adjustment arises from an allowance received against the original cost of a building, as explained in Note 12

The Manchester Airport Group PLC

Cost or valuation at 31 March 2003 is represented by:

	Freehold land and 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	76,015	263,865	235,344	123,209	195,783	1,144	-	-	895,360
Cost	151,126	4,764	35,094	2,890	82,108	14,616	63,729	54,469	408,796
	227,141	268,629	270,438	126,099	277,891	15,760	63,729	54,469	1,304,156

Revaluation policy

Investment properties

Included within tangible fixed assets are investment properties with a net book value of £105,594,000 as at 31 March 2003 (2002: £105,059,000). In accordance with SSAP 19, these assets are not depreciated. All investment properties were valued on 31 March 2003 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, £76,015,000 (2002: £75,480,000) comprises freehold land and buildings, with the remainder, £29,579,000 (2002: £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 on acquisition in March 2001.

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 2003 was £54,643,000 (2002 : £54,643,000) and the net book value of those short life assets that are not revalued are:

	Net book value at 31 March 2003
Long leasehold property	6,199
Runways, taxiways and aprons	9,612
Plant and machinery	32,620
Furniture and fittings	7,769

The Manchester Airport Group PLC

Historical cost

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

Group	Land and freehold property £'000	Long leasehold property £'000	Runways taxiway and aprons £'000	Main services £'000	Plant and machinery, motor vehicles £'000	Fixtures, fittings, tools and equipment £'000	Leased assets £'000	Assets in course of construction £'000	Total £'000
At 31 March 2003									
Cost	209,689	321,168	234,136	162,322	384,478	34,831	63,729	54,469	1,464,822
Aggregate depreciation based on cost	1,505	121,036	101,460	61,546	221,160	20,370	54,549	-	581,626
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

COMPANY

	Plant and machinery, motor vehicles £'000	Total £'000
Cost		
At 1 April 2002	-	-
Additions	137	137
At 31 March 2003	137	137
Depreciation		
At 1 April 2002	-	-
Charge for the year	12	12
At 31 March 2003	12	12
Net book value		
At 31 March 2003	125	125
Net book value		
At 31 March 2002	-	-

The Manchester Airport Group PLC

15 Fixed asset investments

GROUP	2003 £'000	2002 £'000
Investments held by Worknorth Limited and Worknorth II Limited:		
At 1 April	2,108	3,119
Additions in the year	1,153	1,863
Amounts written off	(367)	(1,442)
Provision against profits from fixed asset investments	-	(1,240)
Disposals in the year	-	(192)
At 31 March	2,894	2,108
Trade investments:		
At 1 April	190	235
Transfer to fixed assets	(150)	-
Amounts written off investments	(22)	(45)
At 31 March	18	190
Total investments at cost less amounts written off	2,912	2,298

COMPANY	2003 £'000	2002 £'000
Subsidiary undertakings:		
At 1 April	207,497	-
Additions	110,574	207,497
At 31 March	318,071	207,497
Trade investments:		
At 1 April	40	-
Additions	-	40
Provision for impairment	(22)	-
At 31 March	18	40
Total investments at cost less amounts written off	318,089	207,537

The additions to subsidiary undertakings in the year represent the transfer of 100% of the ordinary shares of Crow Aerodromes Limited from Manchester Airport PLC.

The Manchester Airport Group PLC

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%	-
Airport Management Consultants Limited	Ordinary £1 shares	100%	-
Airport Petroleum Limited	Ordinary £1 shares	100%	-
Airport Trading Limited	Ordinary £1 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%	100%
East Midlands International Airport Limited	Ordinary £1 shares	100%	-
	9% cumulative redeemable preference shares	100%	-
Humberside 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%
Manchester Business Park Limited	Ordinary £1 shares	100%	-
Manchester International Business Park Limited	Ordinary £1 shares	100%	-
Ringway Developments PLC	Ordinary £1 shares	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.

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* 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.

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
Manchester Business Park Management Limited	- Dormant
Manchester Business Park Limited	- Dormant
Manchester International Business Park Limited	- Dormant
Ringway Developments PLC	- Property development company
Ringway Handling Services Limited	- Provision of airport ground handling at Manchester Airport
Ringway Handling Limited	- 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	- Financial resources for business located primarily in the Greater Manchester area

The Manchester Airport Group PLC

17 Stocks

	Group	
	2003	2002
	£'000	£'000
Consumables	1,892	2,112
Property development work in progress	2,226	-
	4,118	2,112

18 Debtors

Amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Trade debtors	30,544	28,833	-	-
Corporation tax recoverable	186	458	-	-
Other debtors	1,616	5,672	139	-
Amounts due from subsidiary undertakings	-	-	15,464	-
Prepayments and accrued income	2,524	4,347	34	-
	34,870	39,310	15,637	-

19 Current asset investments

As at 31 March 2002, the market value of the current asset investments, which were stated at cost, was equivalent to their carrying value.

20 Cash at bank and in hand

		Group		Company	
	Notes	2003	2002	2003	2002
		£'000	£'000	£'000	£'000
Cash accessible on demand	27	15,302	8,585	10,383	-
Short term deposits	27	62,996	58,613	42,000	-
		78,298	67,198	52,383	-

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.

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Included within short term deposits is £13.4 million (2002: £10.8 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 consent of the Lender.

21 Creditors: amounts falling due within one year

	Notes	Group 2003 £'000	2002 £'000	Company 2003 £'000	2002 £'000
Bank overdrafts	23	162	696	-	-
Bank loans	23	3,749	3,453	-	-
Other borrowings	23	4,670	4,361	-	-
Obligations under finance leases	23	2,345	4,665	-	-
Trade creditors		32,418	34,531	-	-
Amounts owed to subsidiary undertakings		-	-	74,178	40
Corporation tax		4,860	6,638	-	-
Other taxation and social security		2,090	3,170	-	-
Other creditors		3,761	3,745	130	-
Accruals and deferred income		37,461	34,764	4,073	10
Capital-based grants		945	520	-	-
Dividends payable		5,500	5,000	5,500	1,000
		97,961	101,543	83,881	1,050

22 Creditors: amounts falling due after more than one year

	Notes	Group 2003 £'000	2002 £'000	Company 2003 £'000	2002 £'000
Bank loans	23	231,623	234,965	94,569	-
Other borrowings	23	204,504	208,879	-	-
Amounts owed to subsidiary undertakings		-	-	1,750	-
Obligations under finance leases	23	21,264	23,487	-	-
Other creditors		750	2,677	-	-
Accruals and deferred income		9,170	9,465	-	-
Capital-based grants		20,878	17,342	-	-
		488,189	496,815	96,319	-

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

	Notes	Group 2003 £'000	2002 £'000
In one year or less, or on demand			
Overdraft		162	696
Bank loans		3,749	3,453
Other borrowings		4,670	4,361
Obligations under finance leases		2,345	4,665
		10,926	13,175
In more than one year, but no more than two years			
Bank loans		98,649	3,742
Other borrowings		4,777	4,436
Obligations under finance leases		2,307	2,273
		105,733	10,451
In more than two years, but no more than five years			
Bank loans		14,401	107,436
Other borrowings		22,470	21,380
Obligations under finance leases		8,598	7,853
		45,469	136,669
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		118,573	123,787
Other borrowings		103,199	109,005
Obligations under finance leases		10,359	13,361
		232,131	246,153
Total			
Bank overdraft		162	696
Bank loans	24	235,372	238,418
Other borrowings	25	209,174	213,240
Obligations under finance leases		23,609	28,152
		468,317	480,506

The Manchester Airport Group PLC

24 Bank loans

	Group	
	2003 £'000	2002 £'000
Unsecured bank revolving credit of £95 million repayable wholly on 30 June 2004 at an annual interest rate of LIBOR plus 1.2%	95,000	95,000
Secured bank loan of £85.062 million at an annual interest rate of LIBOR plus 1.75%	85,062	89,047
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	240,062	244,047
Less: unamortised debt issue costs	(4,690)	(5,629)
	235,372	238,418
The total value of loans repayable by instalments, any part of which falls due after more than five years	140,803	144,263

Security provided on bank loans

Bank loans amounting to £145,062,000 (2002: £149,047,000) are secured by a debenture over the assets of Crow Aerodromes Limited. This debenture is guaranteed by and secured over the assets of 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 £85.062 million secured variable interest bank loan is repayable in 51 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 £100.06 million of the £115.06 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.

The Group's interest rate strategy is summarised in further detail in the Finance Director's Report on page 5 above and in Note 28 below.

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25 Other borrowings

	Group	
	2003 £'000	2002 £'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)	7,119	7,318
In 49 half yearly instalments commencing 1 June 1993 at an interest rate of 10.375% (secured)	11,136	11,457
In 49 half yearly instalments commencing 1 April 1993 at an interest rate of 10.375% (secured)	17,481	17,985
In 48 half yearly instalments commencing 1 August 1993 at an interest rate of 10.375% (secured)	17,209	17,739
In 48 half yearly instalments commencing 1 July 1994 at an interest rate of 9.5% (secured)	16,667	17,155
In 48 half yearly instalments commencing 1 September 1994 at an interest rate of 9.5% (secured)	16,667	17,155
In 48 half yearly instalments commencing 1 May 1994 at an interest rate of 9.5% (secured)	15,045	15,486
In 49 half yearly instalments commencing 1 May 1994 at an interest rate of 7.875% (secured)	1,245	1,285
In 30 half yearly instalments commencing 1 September 1995 at an interest rate of 9.125% (secured)	3,148	3,458
Secured loan from Tameside MBC at the Greater Manchester Metropolitan Debt Administration Fund rate (2003: 7.9% (2002: 8.2%)), repayable in 35 annual instalments from 31 March 1987	21,364	21,850

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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 2003: 5.6%; 2002 :6.3%)	2,218	2,440
Non interest bearing volume related loan to Airport Petroleum Limited from third party	302	303
Non interest bearing volume related loan to Humberside International Airport Limited from third party	97	133
	129,698	133,764
	209,174	213,240
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	129,299	133,328

Security of other borrowings

Loans amounting to £206,557,000 (2002: £210,364,000) are secured by a debenture over all the assets of Manchester Airport PLC and the other principal subsidiaries of the Group with the exception of Crow Aerodromes Limited, East Midlands International Airport Limited, Bournemouth International Airport Limited, Worknorth Limited and Worknorth II Limited.

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 £20.3 million (2002: £23.9 million).

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27 Reconciliation of movement in net debt

	At 1 April 2002	Cash flow	Debt issue costs paid in year	Other non- cash changes	At 31 March 2003
	£'000	£'000	£'000	£'000	£'000
Net cash					
Cash at bank and in hand	8,585	6,717	-	-	15,302
Bank overdraft	(696)	534	-	-	(162)
	7,889	7,251	-	-	15,140
Liquid resources					
Short term deposits included in cash	58,613	4,383	-	-	62,996
Current asset investments	7	(7)	-	-	-
	58,620	4,376	-	-	62,996
Debt due in less than one year					
Bank loans	(3,453)	3,985	9	(4,290)	(3,749)
Other borrowings	(4,361)	4,066	-	(4,375)	(4,670)
Finance leases	(4,665)	4,543	-	(2,223)	(2,345)
	(12,479)	12,594	9	(10,888)	(10,764)
Debt due in more than one year					
Bank loans	(234,965)	-	-	3,342	(231,623)
Other borrowings	(208,879)	-	-	4,375	(204,504)
Finance leases	(23,487)	-	-	2,223	(21,264)
	(467,331)	-	-	9,940	(457,391)
Total debt	(479,810)	12,594	9	(948)	(468,155)
Net debt	(413,301)	24,221	9	(948)	(390,019)

Other non cash movements represent amounts re-classified as being due within one year and amortisation of debt issue costs.

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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 5 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 2003 was as follows:

	2003 £'000	2002 £'000
Fixed rate financial liabilities	319,736	332,571
Floating rate financial liabilities	148,196	149,919
Financial liabilities on which no interest is paid	399	436
	468,331	482,926

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

- Bank loans and overdrafts amounting to £235.5 million (2002: £239.1 million);
- Other borrowings amounting to £209.2 million (2002: £213.2 million);
- Finance lease obligations of £23.6 million (2002: £28.2 million); and
- Other long term creditors amounting to £0.01 million (2002: £2.4 million)

Financial liabilities are shown net of unamortised issue costs amounting to £4.7 million (2002: £5.6 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 £100.06 million (2002: £104.05 million) of bank loans and £7.2 million (2002: £7.6 million) of finance leases as fixed rate financial liabilities as at 31 March 2003.

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

	2003	2002
Weighted average annual interest rate	9.45%	9.43%
Weighted average period for which interest rate is fixed	11y 0m	11y 9m

The weighted average period for non-interest bearing liabilities as at 31 March 2003 was 2 years (2002: 2 years).

(c) Maturity analysis of financial liabilities

The maturity profile of the carrying value of the Group's financial liabilities as at 31 March 2003 was as follows.

	2003 £'000	2002 £'000
In one year or less, or on demand	10,941	13,667
In more than one year but not more than two years	105,733	10,738
In more than two years but not more than five years	45,469	137,489
In more than five years	306,189	321,032
	468,332	482,926

UNDRAWN COMMITTED BORROWING FACILITIES

As at 31 March 2003, the Group had an undrawn committed borrowing facility available amounting to £35 million. These can be further analysed as follows:

	2003 Floating rate £'000	2002 Floating rate £'000
Expiring within 1 year	-	5,000
Expiring between 1 and 2 years	35,000	-
Expiring in more than two years	-	35,000
	35,000	40,000

The £35 million facility incurs a commitment fee at market rates.

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INTEREST RATE PROFILE OF FINANCIAL ASSETS

	2003 £'000	2002 £'000
Cash at bank and in hand (in accordance with FRS 1)	15,302	8,585
Short term deposits	62,996	58,613
Current asset investments	-	7
Other financial assets	-	2,200
	78,298	69,405
Fixed rate	78,298	67,198
Non-interest earning financial assets	-	2,207
	78,298	69,405

All financial assets are denominated in sterling.

The fixed rate assets earn interest at rates between 2.75% and 4.4% 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 2003 and 2002. 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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	2003		2002	
	Book Value £'000	Fair Value £'000	Book Value £'000	Fair Value £'000
Bank loans and overdrafts	(235,534)	(238,893)	(239,114)	(239,114)
Other borrowings	(209,174)	(287,691)	(213,240)	(279,271)
Short term finance leases	(229)	(229)	(2,933)	(2,933)
Long term finance leases	(23,380)	(23,551)	(25,219)	(25,219)
Other financial liabilities	(14)	(14)	(2,420)	(2,420)
	(468,331)	(550,378)	(482,926)	(548,957)
Cash at bank and in hand	15,302	15,302	8,585	8,585
Cash on short term deposit	62,996	62,996	58,613	58,613
Current asset investments	-	-	7	7
Other financial assets	-	-	2,200	2,200
	78,298	78,298	69,405	69,405
Net financial liabilities	(390,033)	(472,080)	(413,521)	(479,552)

Summary of methods and assumptions

Interest rate swaps	Fair value is based on market price of comparable instruments at the balance sheet date.
Bank debt	The bank debt is stated net of unamortised issue costs of £4.7 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.
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 2002	1,568	5,192	6,760
Profit and loss account	886	443	1,329
At 31 March 2003	2,454	5,635	8,089

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, was adopted by the Group during the year ended 31 March 2002. The Group has adopted a policy of discounting.

	2003 Amount Provided £'000	2002 Amount provided £'000
Accelerated capital allowances	44,070	40,044
Short term timing differences	(7,505)	(6,721)
Tax losses available	(2,988)	(1,976)
Undiscounted provision for deferred taxation	33,577	31,347
Discount	(31,123)	(29,779)
Discounted provision for deferred taxation	2,454	1,568

If investment properties were sold at their current market value, this would result in a potential deferred taxation liability of £21.0 million (2002: £20.8 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.

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.

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30 Share capital

	Number	£'000
Authorised, allotted, called up and fully paid		
204,280,000 ordinary shares of £1 each	204,280,000	204,280
At 31 March 2003 and 2002	204,280,000	204,280

31 Reserves

GROUP	Revaluation reserve £'000	Profit and loss account £'000
At 1 April 2002	245,619	193,189
Revaluation surplus on revaluation of fixed assets	535	-
Transfer from revaluation reserve to profit and loss account	(13,968)	13,968
Profit for the year	-	189
At 31 March 2003	232,186	207,346

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
At 31 March 2002	2,207
Loss for the year	(453)
At 31 March 2003	1,754

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32 Reconciliation of movements in equity shareholders' funds

COMPANY

	Notes	2003 £'000
Loss for the financial year		(6,353)
Dividends receivable from subsidiary undertakings		11,400
External dividends payable		(5,500)
Net decrease in equity shareholders' funds		(453)
Opening equity shareholders' funds		206,487
Closing equity shareholders' funds		206,034

33 Capital commitments

	2003 £'000	2002 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	21,736	24,652

Capital commitments relate primarily to development of the Ground Transport Interchange Project, the Terminal 1 retail enhancement scheme and the baggage system replacement scheme at Manchester Airport.

34 Grants

	Group 2003 £'000	2002 £'000
During the year to 31 March 2003 the Group made claims for and received government grants against approved capital expenditure amounting to:	4,569	219

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 2003. No loss is expected to arise from this arrangement.

The Group has entered into a mortgage debenture and guarantee in respect of the borrowings of Manchester Airport PLC amounting to £209,124,000 (2002: £213,240,000). No loss is expected to arise from this arrangement.

The Group has also pledged its investment in the 100% interest in Crow Aerodromes Ltd as security for the bank borrowings of Crow Aerodromes Limited amounting to £140,803,000 (2002: £144,263,000). 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 2003, the Group had annual commitments under non-cancellable operating leases as follows:

	2003		2002	
	Land £'000	Other £'000	Land £'000	Other £'000
GROUP				
Expiring within one year	4	47	-	-
Expiring between two and five years inclusive	20	101	-	279
Expiring in over five years	10,314	60	10,236	1,146
	10,338	208	10,236	1,425

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 employer's pension contributions for the Group during the year ended 31 March 2003 amounted to £6.1 million (2002: £6.7 million), which represented an average contribution rate of 10% of the total staff costs (2002: 10%).

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 £4.1 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.

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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%.

The principal assumptions used in the 2001 valuation 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 £4,680,000 (2002: £4,248,000) 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 2002;
- 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 present value of the liabilities.

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

A provision of £955,000 (2002: £944,000) 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		Ventures	
	2003	2002	2003	2002	2003	2002	2003	2002
Rate of increase in salaries	4.00%	4.50%	4.00%	4.50%	4.00%	4.50%	3.80%	4.50%
Rate of increase of pensions in payment (Note 1)	2.50%	3.00%	2.50%	3.00%	2.50%	3.00%	2.50%	3.00%
Discount rate	5.40%	6.10%	5.40%	6.10%	5.40%	6.10%	5.50%	6.10%
Inflation assumption	2.50%	3.00%	2.50%	3.00%	2.50%	3.00%	2.50%	3.00%

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 attributable share of assets in the schemes and the expected long-term rate of return as at 31 March 2003:

	Rate of return 2003 %	Value 2003 £'000	Rate of return 2002 %	Value 2002 £'000
Equities and property	7.71%	128,082	8.25%	141,300
Bonds	4.80%	30,355	5.90%	34,100
Other	4.05%	12,075	4.00%	18,800
		170,512		194,200

The following amounts at 31 March 2003 were measured in accordance with the requirements of FRS 17:

	Total market value of assets £'000	Present value of scheme liabilities £'000	Deficit in the scheme £'000	Related deferred tax asset £'000	Net pension liability £'000
GMPF					
2003	155,400	(218,000)	(62,600)	18,780	(43,820)
2002	175,200	(189,800)	(14,600)	4,380	(10,220)
EMIA					
2003	11,124	(22,488)	(11,364)	3,409	(7,955)
2002	14,100	(16,800)	(2,700)	810	(1,890)
East Ridings					
2003	2,726	(5,525)	(2,799)	840	(1,959)
2002	3,300	(4,900)	(1,600)	480	(1,120)
Airport Ventures					
2003	1,262	(1,869)	(607)	182	(425)
2002	1,600	(2,300)	(700)	210	(490)
Total					
2003	170,512	(247,882)	(77,370)	23,211	(54,159)
2002	194,200	(213,800)	(19,600)	5,880	(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 2003 would have been as follows:

	2003 £'000	2002 £'000
Net assets excluding pension liabilities	643,812	643,088
Net pension liability	(54,159)	(13,720)
Net assets including pension liabilities	589,653	629,368

	2003 £'000	2002 £'000
Profit and loss reserve excluding pension liabilities	207,346	193,189
Net pension liability	(54,159)	(13,720)
Profit and loss reserve including pension liabilities	153,187	179,469

The contribution rates are in the course of being reviewed and it is anticipated that the Group's contribution rates will be increased in future years to make good the deficit.

The following amounts would have been recognised in the performance statements in the year to 31 March 2003 under the requirements of FRS 17:

Analysis of the amount charged to operating profit

	EMIA 2003 £'000	East Ridings 2003 £'000	GMPF 2003 £'000	Ventures 2003 £'000	Total 2003 £'000
Current Service Cost of Defined Benefit Schemes	912	214	5,600	54	6,780
Past service cost	-	-	4,300	-	4,300
Total operating charge	912	214	9,900	54	11,080

Analysis of the amount credited to other finance income

	EMIA 2003 £'000	East Ridings 2003 £'000	GMPF 2003 £'000	Ventures 2003 £'000	Total 2003 £'000
Expected return on pension scheme assets	1,088	221	6,600	124	8,033
Interest on pension scheme liabilities	(1,024)	(290)	(5,900)	(121)	(7,335)
Net return	64	(69)	700	3	698

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Movement in surplus/(deficit) during year

	EMIA	East Ridings	GMPF	Ventures	Total
	2003	2003	2003	2003	2003
	£'000	£'000	£'000	£'000	£'000
Surplus/(Deficit) in scheme at beginning of year	(2,700)	(1,600)	(14,600)	(700)	(19,600)
Movement in year:					
Current service cost	(912)	(214)	(5,600)	(54)	(6,780)
Past service cost	-	-	(4,300)	-	(4,300)
Contributions	897	185	9,800	276	11,158
Other finance income/(expense)	64	(69)	700	3	698
Actuarial gain/(loss) in STRGL	(8,713)	(1,101)	(48,600)	(132)	(58,546)
Surplus/(Deficit) in scheme at end of the year	(11,364)	(2,799)	(62,600)	(607)	(77,370)

Amount recognised in the statement of total recognised gains and losses (STRGL)

	EMIA	East Ridings	GMPF	Ventures	Total
	2003	2003	2003	2003	2003
	£'000	£'000	£'000	£'000	£'000
Actual return less expected return on pension scheme assets	(4,456)	(940)	(39,900)	(285)	(45,581)
Experience gains/(losses) arising on the scheme liabilities	(2,654)	24	(1,900)	180	(4,350)
Changes in assumptions underlying the present value of the scheme liabilities	(1,603)	(185)	(6,800)	(27)	(8,615)
Actuarial gain/(loss) recognised in STRGL	(8,713)	(1,101)	(48,600)	(132)	(58,546)

History of experience gains and losses

	EMIA	East Ridings	GMPF	Ventures	Total
	2003	2003	2003	2003	2003
	£'000	£'000	£'000	£'000	£'000
Difference between actual and expected returns on assets amount (£'000)	(4,456)	(940)	(39,900)	(285)	(45,581)
% of scheme assets	-40%	-34%	-26%	-23%	-27%
Experience gains and losses on liabilities amount (£'000)	(2,654)	24	(1,900)	180	(4,350)
% of scheme liabilities	-12%	0%	-1%	10%	-2%
Total amount recognised in STRGL amount (£'000)	(8,713)	(1,101)	(48,600)	(132)	(58,546)
% of scheme liabilities	-39%	-20%	-22%	-7%	-23%

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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 £101,856,000 (2002: £103,683,000). The Manchester Airport Group PLC made loan repayments of £1,827,000 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 £23 million (2002: £22 million).

During the year, Manchester 2002 Limited repaid a loan of £2 million to the Group. Manchester 2002 Limited is a wholly owned subsidiary of Manchester Commonwealth Games Limited, which is a company limited by guarantee. Manchester City Council is the ultimate guarantor of Manchester Commonwealth Games Limited.

During the year, Greater Manchester Passenger Transport Executive (GMPTE) paid £2,023,090 to the Group as a grant from the AGMA Transport Infrastructure Fund and £2,297,188 to reimburse costs incurred to accommodate Metrolink in the Ground Transport Interchange. Manchester City Council is the majority shareholder of GMPTE.

As described in note 12, Ringway Developments PLC was acquired during the year. Manchester City Council, Wigan Borough Council, Stockport Metropolitan Borough Council, Bolton Metropolitan Borough Council, Salford City Council, Oldham Metropolitan Borough Council, Trafford Metropolitan Borough Council, Tameside Metropolitan Borough Council, Bury Metropolitan Borough Council, and Rochdale Metropolitan Borough Council were shareholders in Ringway Developments PLC at the date of acquisition.

Contracts with Manchester City Council

During the year 1 April 2002 to 31 March 2003, 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 £156,000 (2002: £287,026). 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 £28,000 (2002: £24,116).

OTHER RELATED PARTY TRANSACTIONS

Seedcorn Investment Management Limited is a Company owned by Paul Barraclough, a director of Airport Ventures Limited. During the year Seedcorn Investment Management Limited charged Airport Ventures Limited and its subsidiaries £57,671 (2002: £84,385) for services provided on normal commercial terms. At as at 31 March 2003, the balance owing to Seedcorn Investments amounted to £7,209 (2002: £7,052).