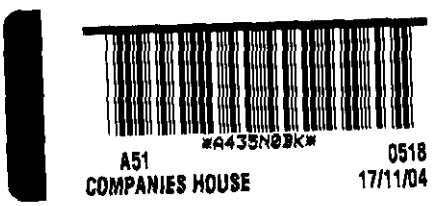
# The Manchester Airport Group PLC
# Annual Report and Accounts
# for the year ended 31 March 2004

**Registered Number: 4330721**



# The Manchester Airport Group PLC Annual Report and Accounts 2003-04

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**The Manchester Airport Group PLC, Manchester M90 1QX**

Registered office: Town Hall, Manchester M60 2LA, United Kingdom
Registered Number 4330721

# Chair's Statement

**This is my first statement, since my appointment as Chair in January 2004, and it is pleasing to report on an exceptional year in terms of financial performance and a year that concluded some major changes to the governance of the Group.**

At the beginning of the year the Board, in consultation with the Shareholders, conducted a thorough review of the Board composition and corporate governance in the Group. The review was aimed at improving the efficiency and effectiveness of the Group's governance arrangements. That review covered, and made recommendations to change, the function of the Shareholders' Committee, the relationship between the Shareholders' Committee and the Group Board, the composition of the Group Board and the relationship between the trading divisions and the Group centre.

As a first step towards implementing these changes the Shareholders identified the appointment of an independent interim non-executive Chair as a key priority. David Kennedy was appointed to this position in June 2003 and I would like to thank David for his very good work in overseeing the implementation of the changes recommended in the governance review.

The main governance changes implemented were to include a higher proportion of external non-executive directors and to reduce the proportion of shareholder representative non-executive directors on the Group Board, to appoint an external Chair for a fixed term of years in place of the previous annual rotation of shareholder representative directors as Chair, and to redefine the function of the Shareholders' Committee and its relationship with the Group Board. In addition a range of measures have been implemented to streamline the working relationships between the Group Centre and the management in the trading divisions.

These governance changes came into effect from 1 January 2004 at which date I was appointed as Chair. The other changes to the composition of the Board arising from the review are set out in the Directors' Report to the accounts. I believe that the new governance arrangements place the Group in a better position to develop and realise the full potential of its businesses.

I am also pleased to report to Shareholders that the financial results for the Group show a marked improvement. Group operating profit, before restructuring costs, rose to £89.3m from £60.1m in the context of a 9.4% increase in passenger numbers. This increase reflects tight control over operating costs and also the benefit of property related profits.

Profits after tax have increased to £35.5m from £3.9m (as restated) last year. The Board is recommending a dividend for the year of £16.5m which represents approximately 50% of the after tax profits after excluding the effect of prior year tax credits amounting to £4.4m. This is a very substantial increase over last year's dividend of £5.5m and reflects the recovery in the Group's results.

During the year the Government White Paper on the Future of Air Transport has been published. Its proposals are summarised in the review of operations and have been welcomed by the Group. The Group will continue to monitor developments in the coming months and seek to influence the continuing debate to ensure that the interests of the Group's airports and their customers are taken into account.

Our airports bring significant economic benefits to the local regions. We support and integrate with regional transport plans and are committed to minimise the adverse environmental effects of our operations.

The trading environment has improved over the last year, albeit with increasingly demanding security requirements. Our scheduled and charter airline customers are facing significant changes in their markets. We aspire to develop with them, and all our customers, to continue to provide a superior level of response and service.

I should like to express my thanks to our staff for the very significant efforts they have made to achieve this year's results.



**Alan Jones**
*Chair*

20 July 2004

# Operating Review

**Summary**

**The Group has made some very significant progress during 2003-04. Against a background of war in Iraq, increased terrorism, disease epidemics and a heightened state of security, MAG has reported record passenger numbers and performance. This has been achieved by a focus on improving operating standards and careful control of costs as well as working with airlines to achieve growth in new markets.**

**Business performance**

Manchester Airport broke through the 20 million passengers per year milestone for the first time this year, despite increased turbulence in the airline industry. New low cost airlines have been introduced such as bmibaby, Hapag Lloyd Express and V-bird. In the long haul sector Manchester is now the largest global base for Pakistan International Airlines outside of Karachi with new transatlantic flights to Houston, Chicago and Toronto added this year. American Airlines announced direct flights to Boston further increasing the range of US destinations direct from Manchester. Cargo movements also broke a new record with an increase of 12.5% in tonnes handled.

After conducting extensive market surveys, to improve name recognition with passengers, East Midlands Airport was renamed Nottingham East Midlands Airport ("NEMA") in January 2004. In the low cost sector both bmibaby and easyJet saw substantial growth at NEMA contributing to a 16% increase in passengers using the airport. Ryanair have recently announced operations from NEMA to start in the new financial year. Cargo airfreight activity continued to grow and NEMA now ranks second behind only Heathrow with over 260,000 tonnes handled in the year.

Humberside Airport bucked the UK trend and showed steady growth in the charter flight sector. Growth in passengers by over 13% at Bournemouth resulted from new Ryanair services to Spain and increased Channel Island traffic.

**White Paper**

The UK Government's White Paper on The Future of Air Transport was published during the year setting out the forecasts for the expected growth in air travel and the strategic framework for the development of airport capacity in the UK over the next 30 years. Air travel in the UK has increased five-fold over the last 30 years and freight from UK airports has doubled since 1990. The available evidence suggests that the demand for air travel will continue to grow in the future.

The White Paper proposes to balance the expansion of airport capacity with the environmental consequences. Whilst many enjoy the benefits of airports, greater measures will be needed to limit and mitigate the impact of airports on those who live nearby and on the natural environment. Particular importance is placed on noise, water and air quality, loss of landscape, minimising the impact on biodiversity and on limiting the impact of surface access to airports. The Group is committed to sustainable airport development, which can be summarised as:

- social progress that recognises the needs of everyone;
- effective protection of the environment;
- prudent use of natural resources;
- maintenance of high and stable levels of economic growth and employment.

Manchester Airport is the only UK airport other than Heathrow to have two full-length runways. It is a major international gateway and provides an important alternative to the congested airports in the south-east of England. The White Paper endorses the development of the existing three passenger terminals at Manchester, within the environmental framework, with a view to accommodating growth in passenger traffic up to 50 million per annum by 2030. As well as terminal capacity, significant improvement in ground access will be needed with investment in road and rail infrastructure aimed at achieving a mode shift towards rail and public transport.

The White Paper also recognises the growing importance of NEMA as a low cost carrier and airfreight base. The expansion of the airfreight operations at NEMA is endorsed, subject to controls and mitigation of night noise, as is the expansion of passenger traffic growth. However, the case for a second runway at NEMA will be kept under review in the context of future growth.

**Investment plans**

To meet the expected short term growth in air travel MAG is planning significant capital investment in new capacity, particularly at Manchester and NEMA. Planning is at an advanced stage for a new passenger terminal at NEMA, together with associated facilities, which would increase capacity to over eight million passengers per year. Similarly at Manchester, following the completion of the second runway in 2001, further investment in aircraft stands, terminal capacity and road access is planned.

It is fully acknowledged that this growth will place increased emphasis on local community relations and environmental issues. The Group is fully committed to environmentally responsible and sustainable development and is working towards increasing standards of monitoring and reporting to ensure this commitment is fulfilled.

**Simply Better**

The new Group mission, *to be simply better*, has been unveiled this year. One of the main factors that will differentiate MAG from its competitors is the attitude, skills and commitment of the people it employs. Many initiatives have commenced during the year, particularly in MAAS, the Group's largest employer, to improve employee morale and to embed the Group values that underpin the mission. New performance management systems, training and personal development plans have been introduced. Greater emphasis has been placed on two-way communication with internal briefings, newsletters and feedback mechanisms.

**Property**

Significant progress has also been made in establishing MADL as the MAG property development arm and also as a centre of excellence for property across the Group. The re-definition of core and non-core land has been undertaken during the year in conjunction with a master planning exercise for the airport sites. The objective is to maximise the value of the land use within and around the Group's airports as well as to plan strategic land acquisition and development in the context of the expected long-term growth in the airports. MADL made a significant new contribution to the Group's operating profit with development profits arising from the sale of surplus land for residential development, after achieving a change of use planning consent for the site.

**Outlook**

In summary, MAG has made excellent progress during 2003-04, on many fronts. There are, as ever, some major challenges ahead of us that will need to be managed effectively in order to realise the opportunities and benefits for all the Group's stakeholders.

# Finance Review

**Summary**

**Significant progress has been made this year in both traffic and operating margins despite the depressed start to the year caused by the combined effect of the Iraq war and the SARS epidemic.**

Passenger numbers finished the year 9.4% higher than last year and operating profit, before restructuring costs, improved markedly to £89.3m, up by 48% over 2003. The improvement was due to increased revenue, operational economies of scale, tight control over operating costs, the benefits of the restructuring programmes implemented over the last two years, as well as property related profits amounting to £7.0m.

**Summary of year's results (£m)**

| | **2004** | 2003* |
|---|---|---|
| Revenue | **352.9** | 328.2 |
| Operating profit – pre restructuring costs | **89.3** | 60.1 |
| Operating profit | **89.3** | 45.8 |
| Profit before tax | **50.6** | 11.2 |
| Profit after tax | **35.5** | 3.9 |
| Dividend | **16.5** | 5.5 |
| Capital expenditure cash outflow, net | **32.6** | 41.2 |
| Reduction in net debt | **67.0** | 23.3 |
| Equity shareholders' funds | **885.7** | 610.2 |
| Net debt | **323.0** | 390.0 |

**Restated for change of accounting policy relating to deferred taxation. (Refer to Note 27)*

**Traffic**

The 9.4% overall increase in passenger numbers reflects the recovery in scheduled services at Manchester and the continued growth in the low cost carriers at both Manchester and Nottingham East Midlands. The charter market showed a slight decline over last year reflecting the uncertain international conditions and a shift towards independent leisure travel arrangements.

**Group traffic summary (000's)**

| | **2004** | 2003 | Change % |
|---|---|---|---|
| Passengers by airport: | | | |
| Manchester | **20,119** | 18,612 | 8.1% |
| Nottingham East Midlands | **4,248** | 3,659 | 16.1% |
| Bournemouth | **477** | 421 | 13.3% |
| Humberside | **529** | 500 | 5.8% |
| | **25,373** | 23,192 | 9.4% |
| Passengers by airline type: | | | |
| Low cost | **3,745** | 2,122 | 76.5% |
| Charter | **11,515** | 11,526 | – |
| Other scheduled | **10,054** | 9,485 | 6.0% |
| Private & miscellaneous | **59** | 59 | – |
| | **25,373** | 23,192 | 9.4% |

Group cargo volumes increased by 8.3% over 2003 due in part to a recovery in world freight demand in line with economic growth. Manchester produced a marked increase of 12.5% resulting from new wide body freighter Far East services and additional wide body belly-hold cargo capacity on the Middle East and USA routes. Nottingham East Midlands continues to grow its substantial cargo business due to additional capacity in larger aircraft and the introduction of new services to Cologne and to New York JFK. Royal Mail ended the year with strong growth arising from their new jet operation, which was introduced in January 2004. The newly established fish freight business at Humberside has continued to develop satisfactorily.

**Cargo in Tonnes (000's)**

| | **2004** | 2003 | Change % |
|---|---|---|---|
| Manchester | **134.1** | 119.2 | 12.5% |
| Nottingham East Midlands | **246.5** | 232.0 | 6.3% |
| Bournemouth | **10.6** | 10.7 | -1.0% |
| Humberside | **1.1** | 0.2 | |
| | **392.3** | 362.1 | 8.3% |

**Revenue**

The increase overall of 7.5% in revenue should be viewed in the context of a 9.4% increase in passenger traffic. The downward movement in aeronautical income per passenger reflects the continued pressure on airport charges arising from the growth in low cost airlines as well as the regulatory price cap in place at Manchester where a price cap of RPI minus 5% per annum is in place for the period from 2003 to 2008.

**Analysis of Group revenue (£m)**

| | **2004** | 2003 | Change % |
|---|---|---|---|
| Aviation income | **169.9** | 163.2 | 4.1% |
| Car parking income | **39.9** | 34.6 | 15.3% |
| Retail concessions | **58.5** | 49.2 | 18.9% |
| Property and related income | **39.3** | 30.4 | 29.3% |
| Other income | **45.3** | 50.8 | -10.8% |
| | **352.9** | 328.2 | 7.5% |
| Aeronautical income per passenger £ | **6.70** | 7.04 | -4.8% |
| Car parking income per passenger £ | **1.57** | 1.49 | 5.4% |
| Retail income per passenger £ | **2.31** | 2.12 | 9.0% |

The recent investment in retail facilities at Manchester and Nottingham East Midlands has resulted in a 9% increase in Group retail income per passenger. The improvement in car parking yields reflects the increased utilisation due to more competitive pricing and improved marketing offers.

# Finance Review
continued

**Trading performance**

Manchester Airport accounts for 77% of the Group's operating profit and 79% of the Group's passenger traffic. Growth in revenues at Manchester have been augmented by tight control over operating costs to produce a £20.4m improvement in operating profit, representing a 42% increase over 2003.

The 16% increase in passengers at Nottingham East Midlands has yielded a 31% improvement in operating profit mainly as a result of operational economies of scale as the existing terminal and airfield facilities are utilised more efficiently.

The depreciation and amortisation charge for the Group has reduced to £57.3m from £61.2m reflecting the benefits of the lower levels of capital expenditure over the last two years.

**Summary of trading performance by location**

| **Revenue (£m)** | **2004** | 2003 | Change % |
|---|---|---|---|
| Manchester Airport | **247.5** | 237.8 | 4% |
| Nottingham East Midlands Airport | **50.6** | 44.9 | 13% |
| Bournemouth Airport | **11.3** | 11.1 | 2% |
| Humberside Airport | **8.5** | 8.3 | 2% |
| Other businesses | **35.0** | 26.1 | 34% |
| | **352.9** | 328.2 | 8% |

**EBITDA[1] before restructuring costs (£m)**

| | | | |
|---|---|---|---|
| Manchester Airport | **119.9** | 100.3 | 20% |
| Nottingham East Midlands Airport | **25.1** | 20.7 | 21% |
| Bournemouth Airport | **2.8** | 2.0 | 40% |
| Humberside Airport | **2.3** | 2.2 | 5% |
| Other businesses and central costs | **(3.5)** | (3.8) | |
| | **146.6** | 121.4 | 21% |

**Operating profit before restructuring costs (£m)**

| | | | |
|---|---|---|---|
| Manchester Airport | **68.9** | 48.5 | 42% |
| Nottingham East Midlands Airport | **20.3** | 15.5 | 31% |
| Bournemouth Airport | **2.2** | 1.4 | 57% |
| Humberside Airport | **1.7** | 1.7 | – |
| Other businesses and central costs | **(3.8)** | (7.0) | |
| | **89.3** | 60.1 | 48% |

[1]EBITDA is defined as earnings before interest, taxation, depreciation and amortisation.

**Interest, tax and dividends**

The interest charge includes an early redemption premium of £1.8m and accelerated write off of loan issue costs of £3.4m both of which arise from the bank loan refinancing concluded during the year. The underlying net interest charge of £33.5m is an improvement of £4.1m over 2003 and is due to reduced levels of debt and the benefits of lower interest rates arising from the refinancing.

**Group profit and loss account (£m)**

| | **2004** | 2003* |
|---|---|---|
| Operating profit | **89.3** | 45.8 |
| Net interest payable | **(38.7)** | (37.6) |
| Exceptional item | **–** | 3.0 |
| Profit before tax | **50.6** | 11.2 |
| Taxation | **(15.1)** | (7.3) |
| Profit after tax | **35.5** | 3.9 |
| Dividends payable | **16.5** | 5.5 |

**Restated for change of accounting policy relating to deferred taxation. (Refer to Note 27)*

Significant progress has been made in concluding tax computations for the financial years affected by the construction of the second runway at Manchester. The agreement of the Runway 2 capital allowance claims, and the conclusion of other tax issues, has enabled the release of provisions of £4.4m relating to prior years. The underlying current tax charge excluding prior year credits is £16.8m and equates to an effective rate of 33% of the profit before tax.

The proposed dividend of £16.5m is approximately 50% of the profit after tax after adjusting for the effects of prior year tax credits.

The impact of the change in accounting policy for deferred tax is explained in Note 27 to the accounts.

**Cash flow and capital expenditure**

The operating cash flows have improved in line with the increased profits. At 31 March 2004, after funding interest, tax and dividend payments, there remained £100m of cash flow available to fund capital expenditure.

Over the last two years all the Group's airports have been able to operate within existing physical capacity constraints. Accordingly major capacity enhancing capital expenditure projects have been postponed resulting in a significant reduction in net debt. However, more recently, traffic has exceeded the peaks experienced prior to 11 September 2001 with the consequence that investment in new capacity is being planned for the future.

**Group cash flow (£m)**

| | **2004** | 2003 |
|---|---|---|
| EBITDA[1] (net operating cash flow) | **146.6** | 121.4 |
| Exceptional items and restructuring costs | **–** | (11.3) |
| Working capital changes | **0.7** | 1.2 |
| Interest, tax and dividends | **(47.7)** | (47.7) |
| Capital expenditure, net | **(32.6)** | (40.3) |
| Reduction in net debt | **67.0** | 23.3 |

# Finance Review

continued

**Balance Sheet**

Equity Shareholders' funds have increased to £885.7m as at 31 March 2004 from £643.8m (before restatement) for the prior year end. The main reason for the increase in shareholders' funds during the year is the revaluation of fixed assets.

Following a review of operational assets at Manchester Airport, part of the property estate has been reclassified as investment properties and revalued on an open market basis. The revaluation surplus of £54.6m has been taken to reserves.

The Group has an established policy of revaluing operational fixed assets every five years with an interim review at the third year. The last full review was in 2001 and accordingly an interim review has been carried out as at 31 March 2004. The revaluation was assessed on a depreciated replacement cost basis and the result of the exercise is a revaluation increase of £202m, which has been taken to reserves.

**Movement in shareholders' funds (£m)**

| | |
|---|---|
| As at 31 March 2003, as previously reported | 643.8 |
| Restatement of deferred tax liability | (33.7) |
| Retained profit for the year | 19.0 |
| Increase in investment property valuations | 54.6 |
| Increase in valuation of operational assets | 202.0 |
| As at 31 March 2004 | 885.7 |

As explained in Note 27 to the accounts, the accounting policy for deferred tax has been changed with the result that a charge to the profit and loss account of £33.7m has been made as a prior year adjustment.

[1]EBITDA is defined as earnings before interest, taxation, depreciation and amortisation.

**Financing**

The secured bank loans, taken out originally to finance the acquisition of East Midlands and Bournemouth airports, were refinanced during the year. A syndicated five year unsecured revolving credit was completed in March 2004 and provided the funds for the refinancing and will provide funds for liquidity and future capital investment.

The repayment of the secured acquisition loans has resulted in a reduction in interest costs arising from the reduction in the margin on the LIBOR based loans and the redemption of the 12% mezzanine loan of £30m.

The loans described below as Secured PWLB loans are long term loans due to the Greater Manchester local authorities, which are in turn funded originally from the UK Government Public Works Loan Board. In weighted average terms, these loans have an average maturity of 13 years and an average fixed interest rate of 10.2%.

**Analysis of net debt (£m)**

| | **2004** | 2003 |
|---|---|---|
| Secured PWLB loans | **204.7** | 209.2 |
| Secured bank loans | **–** | 145.1 |
| Unsecured bank loans | **200.0** | 95.0 |
| Finance leases | **21.3** | 23.6 |
| Unamortised issue expenses | **(2.6)** | (4.7) |
| Total debt | **423.4** | 468.2 |
| Cash balances | **100.4** | 78.2 |
| Net debt | **323.0** | 390.0 |
| Fair value of net debt | **367.1** | 472.1 |

Cash balances are maintained to provide adequate liquidity and are invested in short term fixed bank deposits.

The current exposure to variable interest rate is the net of the cash balances and the unsecured bank loans balance. An interest rate swap, with a principal amount of £95.8m, amortising to £70.6m over five years, at a fixed rate of 5.5% provides a hedge against substantially the whole of the net exposure as at 31 March 2004.

The fair value of the net debt exceeds the balance sheet value by £44.1m. This negative fair value adjustment arises primarily from the fixed interest rates on the Secured PWLB loans.

**Pensions**

During the year all four of the Group's defined benefit pension schemes were closed to new entrants. A new Group defined contribution pension scheme has been created for new joiners.

On the FRS 17 basis, the aggregate deficit in the four defined benefit schemes reduced from £77.4m to £68.5m, before allowing for any credit for deferred taxation. The movement in the deficit is reconciled in the table below.

**Summary of change in aggregate pension fund deficits (£m)**

| | |
|---|---|
| Deficit as at 31 March 2003 | (77.4) |
| Current and past service cost | (8.2) |
| Contributions | 5.8 |
| Return on pension scheme assets | 42.0 |
| Interest on pension scheme liabilities | (13.8) |
| Experience changes on scheme liabilities | (0.4) |
| Change in present value assumptions | (16.5) |
| Deficit as at 31 March 2004 | (68.5) |

**Assets and liabilities in pension schemes £m**

| | **2004** | 2003 |
|---|---|---|
| Total market value of assets | 213.0 | 170.5 |
| Present value of liabilities | (281.5) | (247.9) |
| Net deficit in scheme before deferred tax benefits | (68.5) | (77.4) |

# Finance Review
continued

Over the last year the recovery in world equity markets has increased the value of the scheme's assets by 25%. This compares with an increase in the scheme's liabilities of approximately 14%.

The triennial valuation of the GMPF scheme, which comprises 78% of the aggregate Group pension scheme liabilities in the above table, is due to be carried out as at 31 March 2004. The results of this valuation will inform a decision on the future employer contribution rate, which for the GMPF scheme is currently 13.2% of pensionable pay. It is anticipated that the contribution rate will increase to make good the deficit on the scheme.

**Accounting Policies**
The accounting policy for deferred tax has been changed this year and the previous year comparative figures have been restated accordingly. The previous policy of discounting the deferred tax liability to present values has been discontinued and the liability for deferred tax is now shown without discounting. This change has been made to align the Group's accounting policy with other comparable companies in the airport sector and to simplify the transition towards adopting International Financial Reporting Standards ('IFRS').

Following a review of operational assets, part of the property estate at Manchester Airport has been reclassified in the accounts as Investment Properties, as defined in SSAP 19, and revalued on an open market value basis. Under the provisions of SSAP 19, depreciation is not charged on Investment Properties.

A project team has been established to work towards transition to IFRS. An initial impact assessment has been completed and individual projects have been identified to assess the implications in detail, to train staff and to update information systems.

**Risk management**
Risk management within MAG is a continuous process involving the identification, evaluation and management of risks that threaten the achievement of the Group's strategic objectives. This process, which is endorsed by a Board-approved risk policy statement, is embedded within the Group's management process and is based on the maintenance of Risk Registers.

Individual risks are owned by the relevant manager and are reported upward by exception to the Group's senior management team who review the adequacy of line management actions. Risk exposure is assessed by profiling individual risks in respect of their potential impact and likelihood of occurrence, after consideration of mitigating and controlling actions that are in place.

The process is overseen by a Steering Group which meets regularly and whose remit is to moderate the process and to ensure completeness of the Risk Registers. The process is also subject to review by the Group's Internal Audit function. The key corporate risks and mitigation profile are:

**Security**
Security of customers and staff is ranked as one of the most important operational risks that the Group has to manage. Apart from compliance with the DfT regulatory regime, an independent quality assurance programme is in place to ensure that high standards are maintained in day to day operations. A rigorous training programme and investment in state of the art security technology supports the security operation. Close co-operation is maintained with government agencies and the police to ensure that the security regime is responsive to changes in external threats.

**Health and safety**
As with Security, the Health and Safety of customers and staff is viewed as a priority operational risk for the Group to manage. This is achieved through the activities of specialist compliance units across the Group. Assurance is provided through a management reporting process that feeds into a Health and Safety Committee structure. This in turn provides for the ongoing consideration of risks and emergent Health and Safety issues.

**Environmental compliance**
Increased environmental restrictions in respect of noise and pollution potentially place limitations on future growth. This risk is addressed by a dedicated team whose remit is to research and model future trends in air traffic and to develop environmental impact assessments. The Group is also actively working closely with the Airlines to research ways to operate in more environmentally efficient ways.

**Competition**
Competition for attracting and retaining business from the full service airlines, low cost carriers, charter airlines and cargo operators is fierce and threatens growth in market share. The Group is investing considerable effort in understanding the market and developing propositions that will continue to attract airline operators. The anticipated commencement of commercial operations at Finningley in 2005 will inevitably impact on the catchment area of Nottingham East Midlands and Humberside. Significant resources have been directed at developing a robust response to this challenge with a view to minimising any loss of market share.

**Changes in demand**
The reality of the airport business is that there is a constant threat of a downturn in demand due to adverse global economic factors or specific events, such as a terrorist incident. This risk is mitigated by the application of prudent financial controls, the gathering of business intelligence and contingency planning. The combined effect of these mitigating actions is to make the Group capable of a flexible response in the event of a significant downturn.

**Capacity shortfall**
Failure to secure the appropriate planning permissions would expose the Group to operational capacity constraints. Against the backdrop of the recent Government White Paper on airport expansion in the UK, medium and long term plans are being developed for increasing capacity at both Manchester and Nottingham East Midlands in line with anticipated demand.

# Corporate and Social Responsibility

**The Manchester Airport Group is committed to developing a sustainable business. Sustainability is fundamental to the achievement of its mission to be *simply better*. It also informs its aim of becoming 'a model corporate citizen' and is progressively permeating all aspects of the business and its processes.**

All Group divisions consider the social, economic and environmental impacts of their operations in order to maximise benefits and minimise negative impacts.

The end goal is to create a group of profitable businesses with long term futures that create employment, economic prosperity for their communities and wider regions, and deliver value to all stakeholders. The Group believes it has made significant progress towards this goal during 2003-04.

*Areas in which it has taken steps forward include:*

### People and Employee Welfare

Employment is one of the major economic benefits that airports deliver. The Group employs directly over 2,500 people and helps create additional jobs in aviation-related businesses, and further afield through inward investment and tourism.

As responsible employers, its divisions value diversity and are committed to developing the capabilities and careers of their employees. Two divisions now hold Investors In People status.

During the year consultation was moved higher up their agendas with a view to developing and improving two-way communication with employees.

The move reflects the need to improve the communication of strategic objectives and bolster staff morale.

Divisions also worked with service partners, local employment services and schools to deliver work experience and jobs on airport sites for under-represented groups. The initiatives have targeted local areas of high unemployment and people with disabilities.

The groundwork to play a major role, with partners, in the regeneration of Manchester Airport's neighbouring Wythenshawe district was also prepared during the year.

### Health and Safety

The Group is committed to progressive improvements in health and safety. Each of its divisions has its own health and safety committee overseen by a Corporate Steering Group. The group monitors performance, shares best practice and engages employees and service partners in the pursuit of continuous improvement. Across the Group the number of reportable accidents fell from 138 to 109 – a reduction of 21 per cent.

### Our Neighbours and Environment

While airports make a major contribution to improving the quality of people's lives they also have negative impacts. The Group strives continuously to reduce these through a combination of voluntary and regulatory measures.

These are aimed at minimising noise and air pollution, reducing the number of car journeys made to and from airports by employees and air travellers, lowering energy use, promoting recycling, cutting waste, managing land to harmonise with rural surroundings, and supporting and funding local communities.

During the year Manchester Airport published a draft Environment Plan for public consultation. The document maps out ways to minimise and control the less desirable impacts of airport operations over the next 10 years. It complements its Development and Ground Transport Strategies which were published for consultation at the end of 2003.

Manchester Airport also opened The Station, its ground transport interchange which – along with car sharing schemes and cycling initiatives – is aimed at reducing journeys made to and from the airport by car.

Along with Manchester, Nottingham East Midlands launched a new improved sound insulation grant scheme. Nottingham East Midlands Airport also became the first in the UK to win ISO 14001 status for its environmental management systems and collected an 'Environment Business Award' at the 2003 National Business Awards.

All Group airports continued to support and fund local community initiatives during the year, especially those in areas affected by airport activities. Manchester Airport has provided 250 grants to date at a cost of £1.4 million.

The airport has also set up a network of 'Community Champions' to promote employee involvement in local schools. Nottingham East Midlands operates a similar scheme. Staff at both airports are also encouraged to volunteer their services as school governors.

# Report on Corporate Governance

The Group is committed to high standards of corporate governance. This statement sets out how the Group has complied with The Combined Code on Corporate Governance ('the Code') while having due regard for its non-listed status. On 23 July 2003 the Financial Reporting Council published a revised Code that applies to reporting periods commencing after 1 November 2003.

The composition of the Board changed with effect from 1 January 2004. The newly-constituted Board has, therefore, been established only for a relatively short period of time and is reviewing its processes and procedures. However, the Board has reviewed its corporate governance standards in the light of the revised Code and, where appropriate, has already implemented a number of the new provisions with a view to reporting full compliance by the end of the next financial year.

**Directors**

The Board is accountable to the Shareholders for delivery of Group performance against Shareholders' objectives and is responsible for developing and setting corporate strategy. The Board has adopted a formal schedule of matters that are reserved to it for decision-making. Each month the Board considers a business performance report and a finance report for the Group and each operating division. Directors receive timely and accurate information that allows them to discharge their duties effectively.

The roles of the Chair and Chief Executive are separate and clearly defined. The Chair provides leadership to the Board; ensuring that it delivers effectively on its accountabilities. The day to day management of the Group and the delivery of Group financial and operational objectives is the responsibility of the Group Chief Executive who is supported by the Group Strategy Director and the Group Finance Director. The Chair was independent for the purposes of the revised Code on appointment.

The Board currently comprises the Chair, three executive directors and eight non-executive directors. It is considered that the size of the Board is sufficient for the requirements of the business and that there is an appropriate balance of non-executive and executive directors on the Board. The non-executive directors contribute extensive knowledge and experience as illustrated by their biographies set out on page 13. Their role is also to bring independent and objective judgement to the Board and committees of the Board as the case may be.

All non-executive directors are appointed subject to objective capability crieria. The Board considers that all the non-executive directors are independent both in character and judgement. The Council of the City of Manchester (that hold 55% of the shares) have nominated Brian Harrison. The other shareholders who collectively hold 45% of the shares have nominated Peter Smith. The Group meets the requirement in the revised Code that at least half the Board comprises independent directors.

The Board has concluded that since the roles of the Chair and Chief Executive are not held by the same person and since there are only a small number of shareholders thus facilitating communication between the Group and its owners, it is not necessary at this stage to appoint a senior independent director. Arrangements are to be made for the Chair to meet with the non-executive directors without the executives being present.

The Group does not comply with the provision requiring all directors to be subject to election by shareholders at the first opportunity after their appointment and to re-election at intervals thereafter of no more than three years. This can be explained by the fact that there is a small number of shareholders and the prior approval of the Shareholders is required in respect of all Board appointments.

During the year there has been no formal evaluation of the Board as a whole due to the review of corporate governance and the fact that the newly constituted Board has only been in place since January 2004. A procedure for evaluating the performance of non-executive directors and committees of the Board will be established during the course of the next year.

The Company has developed a formal induction programme for all new directors joining the Board, which comprises key written information, meeting with members of the senior management team and site visits. The Company undertakes to provide the necessary resources for updating directors' knowledge by providing them with relevant information concerning both the Group and their responsibilities as directors. In addition, there is a procedure whereby the directors are able to take independent advice in relation to their duties at the Company's expense, if appropriate.

# Report on Corporate Governance
continued

**Committees**
The Board has established a number of committees with specific, delegated authority. The principal committees are as follows:

**Audit Committee**
The Audit Committee is responsible for reviewing the Group's financial statements, internal control procedures, legal and regulatory compliance, risk management assessments, controls and procedures and matters including the appointment, independence, performance and cost-effectiveness of the Group's external auditors. The Audit Committee undertakes to establish a policy and framework on the engagement of the external auditors for non-audit services. This policy will be reviewed on an annual basis by the Audit Committee which also evaluates the external auditors' objectivity and independence.

The current members of the Audit Committee are David Kennedy (Chair), Brian Harrison, Michael Medlicott and Peter Smith. All members of the Audit Committee are independent non-executive directors. The Board is satisfied that David Kennedy and Michael Medlicott have recent and relevant financial experience. Charles William Hinds and Kath Robinson resigned from the Audit Committee on 27 May 2003 and 23 June 2003, respectively. Andrew Meehan and Joyce Keller resigned from the Audit Committee on 31 December 2003.

The Audit Committee meets at least four times a year. The external auditors, the Group Chief Executive, the Group Finance Director and the Head of Risk Assurance regularly attend meetings with the Audit Committee.

**Remuneration and Review Committee**
The Remuneration and Review Committee is responsible for reviewing and formulating remuneration policy (including bonuses, long term incentives and pension benefits) for executive directors and senior executives within the Group. In addition, it sets annual performance targets for the Group Chief Executive and appraises performance against these targets. More information on the work of the Remuneration and Review Committee and directors' remuneration and related matters can be found in the Report on Directors' Remuneration on page 14.

The current members of the Remuneration and Review Committee are Alan Jones (Chair), Michael Gooddie, John Hancock, Brian Harrison and Peter Smith. All members of the Remuneration and Review Committee are independent non-executive directors. Claire Nangle resigned from the Remuneration and Review Committee on 12 June 2003. Margaret Salmon was Chair of the Remuneration and Review Committee until her resignation on 31 December 2003. Robert Howarth also resigned from this committee with effect from 31 December 2003.

This committee meets at least twice a year and at other times as it sees fit.

**Nomination Committee**
Prior to the governance review in December 2003 an Appointments Panel comprising the six non-executive directors nominated by the local authority shareholders and three external non-executive directors managed appointments to the Board. A panel established by the Shareholders oversaw the reconstitution of the Board in December 2003. The Group considers that there should be a formal, robust and transparent procedure for the appointment of new directors to the Board. Consequently, the Board has agreed to establish a Nomination Committee to identify and recommend candidates for executive and non-executive appointments and to review the objective criteria for use in connection with such appointments. There has been no requirement for a Nomination Committee to meet since the implementation of the new internal governance arrangements.

# Report on Corporate Governance
continued

The Board meets formally at least eleven times a year and also on additional occasions to consider specific business matters. Individual directors' attendance at Board and committee meetings is set out at the foot of the page.

**Relations with Shareholders**

The Board is committed to a proactive communications programme with its Shareholders. The Chair, Group Chief Executive, Group Strategy Director and Group Finance Director attend meetings with the Shareholders' Committee at its invitation.

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

- Ten Year business strategy;
- Three year business plan;
- Group funding strategy and dividend policy;
- Major capital investments; and
- Financial Results.

The Shareholders' Committee, whenever necessary, deals with reserved matters pursuant to the Articles of Association in general meeting.

**Corporate Social Responsibility**

The Group recognises the increasing importance of effective management of corporate social responsibility (CSR) and the link between CSR and corporate governance. The Group acknowledges its responsibilities to its stakeholders; shareholders, employees, customers and the wider communities its airports serve and endeavours to inform them of the way it conducts its business. For more information see page 8. In addition, the Group has committed to develop a structured CSR programme and has recently defined its values in terms of inter alia its customers, integrity, employees and social impact. Corporate, social and ethical risks are identified and managed pursuant to the Group's risk assessment and management process.

**Internal control**

The 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.

| | Board | Audit | Remuneration |
|---|---|---|---|
| **Total number of meetings in 2003/04[1]** | **11** | **5** | **1** |
| **Number of meetings attended** | | | |
| Alan Jones[2] | 2 | – | – |
| Michael Gooddie[3] | 3 | – | – |
| John Hancock | 10 | – | 1 |
| Brian Harrison | 10 | 3 | – |
| Robert Howarth[4] | 7 | – | 1 |
| Mark Hunter[5] | 2 | – | – |
| Joyce Keller | 8 | 2 | – |
| David Kennedy | 11 | 5 | – |
| David Lancaster | 5 | – | – |
| Thomas Marshall[3] | 3 | – | – |
| Michael Medlicott[3] | 3 | 5 | – |
| Claire Nangle[5] | 2 | – | – |
| Margaret Salmon[4] | 6 | – | 1 |
| Brenda Smith[3] | 3 | – | – |
| Peter Smith | 11 | 2 | – |
| Geoff Muirhead | 11 | – | – |
| Rowena Burns | 11 | – | – |
| Philip Ridal | 11 | – | – |

*[1] The Appointments Panel did not meet during 2003/04*

*[2] Alan Jones was appointed 1 January 2004*

*[3] Michaell Gooddie, Thomas Marshall, Michael Medlicott and Brenda Smith were appointed on 19 January 2004*

*[4] Robert Howarth, David Lancaster, Joyce Keller and Margaret Salmon resigned from the Board on 31 December 2003*

*[5] Claire Nangle and Mark Hunter resigned from the Board on 12 June 2003*

# Report on Corporate Governance

*continued*

**Control Environment**

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 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);
- 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;
- An internal audit function; and
- Implementation of Group wide procedures, policies, standards and processes on business activities, such as financial reporting, health and safety and human resources.

**Risk Management**

The management of risks rests ultimately with the Board. These risks include strategic planning, operational risks, acquisitions, investments, income and expenditure control, treasury, trading, reputation and customer service. A review of internal processes to ensure that the Group would be fully compliant with the Turnbull Guidance on the Code was completed in May 2003.

*The role of risk assurance has been embedded within the* Group structure with the appointment of the Head of Risk *Assurance in August 2003. The post reports directly to the* Group Chief Executive.

During the year under review a Group-wide standard has been established for the identification and management of risk through the maintenance of Risk Registers in each operating division. The Registers are managed by individual risk owners and are updated as appropriate. The overall risk management process is monitored by a Risk Management Committee. Each operating division is represented on this committee, which is chaired by the Head of Risk Assurance. This process is supported by the holding of annual Business Risk Workshops at a divisional level that are attended by managers at the operational level.

The Board can 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 that is regularly reviewed by the Board and accords with the Turnbull Guidance.

**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 Board of Directors

**Chair**

**Alan Jones FREng, FIEE, FRAes,** was appointed non-executive Chair of the Company on 1 January 2004. Formerly Chief Executive of BICC plc and The Westland Group he is currently Chairman of Britax and British International and a Director of Witan Investment Trust; he has also served as a member of the Financial Reporting Council.

**Executive Directors**

**Geoff Muirhead CBE, FCIT, FRSA, FICE,** was appointed Group Chief Executive in June 2001 having joined Manchester Airport plc in 1988. Appointed Chief Executive in October 1993. External appointments include Chairman of CBI North West Regional Council, Board Member of Airports Council International and Manchester Metropolitan University, Member of North West Business Leadership Team.

**Rowena Burns,** was appointed Group Strategy Director in June 2001. In previous roles with Manchester City Council and the Greater Manchester Passenger Transport Authority, she was responsible for developments of Manchester's Light Rail System, City Centre economic development and the disposal of former municipally-owned businesses.

**Philip Ridal, FCA, MCT,** was appointed Group Finance Director in January 2002. He has previously been Finance Director of UK listed property companies and Group Treasurer of John Mowlem & Co plc.

**Non-Executive Directors**

**Michael Gooddie FCIPD, FRSA,** was appointed on 19 January 2004. He has been Human Resources Director of Great North Eastern Railway since 1998.

**John Hancock** was appointed in February 2002. He is currently Chief Executive of MFI Furniture Group plc and is a former Executive Director of W H Smith Group plc.

**Brian Harrison** was appointed in March 2002. A former Chairman of Manchester Airport plc, he is an elected member of the Council of the City of Manchester.

**David Kennedy** was appointed in April 2002. From 12 June 2003 to 31 December 2003 he acted as interim non-executive Chair of The Manchester Airport Group plc. Currently he is Chairman of Bank of Ireland Life and a director of a number of other public and private companies. He is an aviation consultant, a former Chief Executive Officer of Aer Lingus and a former Chief Operating Officer of TransWorld Airlines.

**Thomas Marshall FRICS,** was appointed on 19 January 2004. He is Chairman of the Cheshire Building Society and formerly Deputy Chairman of Lambert Smith Hampton. He is also Chairman of The Hollins Murray Group – a North West based property investment company.

**Michael Medlicott FRSA, CRAes,** was appointed on 19 January 2004. He is currently non-executive director of National Savings & Investments at HM Treasury. He was formerly Transaction Director of the Principal Finance Group Nomura International plc and Chief Executive of Servus Holdings Limited, having also been International Vice-President of Delta Air Lines Inc. and Chief Executive of the British Tourist Authority.

**Brenda Smith ACA,** was appointed on 19 January 2004. She is currently Group Managing Director of Ascent Media UK, Deputy Chairman of Granada TV Limited, a director of the North West Development Agency and a director of MIDAS. She is also Vice President of the Manchester Chamber of Commerce and Industry, a director of Liverpool European Capital of Culture and a member of the North West Business Leadership Team.

**Peter Smith, Lord Smith of Leigh,** was appointed in March 2002. A former Chairman of Manchester Airport plc, he has been Leader of Wigan Borough Council since 1991 and a member of the House of Lords since 1999.

# Directors' Remuneration Report

Although the Company is not a quoted company, as a matter of best practice it has decided to implement the Directors' Remuneration Regulations 2002, as appropriate to its circumstances.

This report covers the remuneration of directors and related matters, including pay and benefits, remuneration policy and detailed terms of reference of the Remuneration and Review Committee. The first part of this report is unaudited.

**Remuneration and Review Committee terms of reference**

The members of the Committee are set out on page 10. The terms of reference for the Committee are as follows:

- To determine and review the policy for the remuneration of executive directors and divisional managing directors within the Manchester Airport Group;
- To determine bonuses and long term incentives for executive directors and divisional managing directors within the Manchester Airport Group;
- To determine the policy for and scope of pension arrangements and employee benefits for the Manchester Airport Group;
- To set annual performance targets for the Group Chief Executive and to review the performance of the Group Chief Executive against such targets;

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

The Group Chief Executive and the Head of Group Human Resources and Organisational Development attend meetings with the Committee as and when appropriate.

***Remuneration policy***

The objective of the remuneration policy in respect of the executive directors and senior executives is to offer remuneration packages that:

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

The 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 and divisional managing directors subject to the fulfilment of certain performance criteria. The 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.

***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 2003/04 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.

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

**Executive directors' pension entitlements and benefits**

Geoff Muirhead and Rowena Burns 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 that are linked to the length of pensionable service and to final pensionable salary.

The Group makes contributions to a personal pension arrangement on Philip 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 non-executive directors (other than Brian Harrison and Peter Smith) receive fees for their services but do not participate in any of the incentive or benefit schemes of the Group (including pensions).

The Board determines the remuneration for non-executive directors excluding the Chair. The Shareholders' Appointments Panel determines the remuneration for the Chair.

The Board's current policy with regard to non-executive directors is that appointments are on fixed terms of either one, two or three years with a notice period of one month.

# Directors' Remuneration Report

continued

**Audited information**

The remainder of the Directors' Remuneration Report is audited information. Individual aspects of remuneration were as follows:

| | **Salary/fees** | **Car cash alternative** | **Bonuses** | **Benefits in kind** | **Total emoluments 2004** | Total emoluments 2003 |
|---|---|---|---|---|---|---|
| | | | | *(Note 1)* | | |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | £'000 |
| **Executive Directors** | | | | | | |
| Geoff Muirhead | 263 | – | 59 | 20 | **342** | 324 |
| *Rowena Burns* | 195 | – | 44 | 19 | **258** | 244 |
| Philip Ridal | 195 | 12 | 44 | 2 | **253** | 240 |
| **Non-Executive Directors** | | | | | | |
| Alan Jones *(Note 2)* | 30 | – | – | – | **30** | – |
| Michael Gooddie *(Note 3)* | 5 | – | – | – | **5** | – |
| *John Hancock* | 23 | – | – | – | **23** | 23 |
| David Kennedy *(Note 4)* | 66 | – | – | – | **66** | 23 |
| Thomas Marshall *(Note 3)* | 5 | – | – | – | **5** | – |
| Michael Medlicott *(Note 3)* | 5 | – | – | – | **5** | – |
| *Margaret Salmon (Note 5)* | 17 | – | – | – | **17** | 23 |
| Brenda Smith *(Note 3)* | 5 | – | – | – | **5** | – |
| | 809 | 12 | 147 | 41 | **1,009** | 877 |

*(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) Alan Jones was appointed on 1 January 2004.*

*(3) Michael Gooddie, Thomas Marshall, Michael Medlicott and Brenda Smith were appointed on 19 January 2004.*

*(4) David Kennedy's emoluments include a £50,000 fee for the period 12 June 2003 to 31 December 2003 when he was interim chair.*

*(5) Margaret Salmon resigned on 31 December 2003.*

Bonuses paid to executive directors for the year ending 31 March 2004 are in accordance with the criteria outlined above. Brian Harrison and Peter Smith receive no remuneration or fees (2003: £nil).

# Directors' Remuneration Report

continued

**Pensions**

All of the executive directors, apart from Philip Ridal, are members of the Greater Manchester Pension Fund. During the year, the Company made contributions of £25,725 (2003: £30,548) to a personal pension arrangement on Philip Ridal's behalf.

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

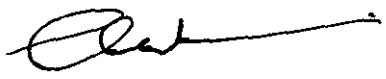
| | **Pensionable Service at 31 March 2004 Years** | **Accrued pension at 31 March 2004 £'000** | Accrued pension at 31 March 2003 £'000 | **Accrued lump sum at 31 March 2004 £'000** | Accrued lump sum at 31 March 2003 £'000 |
|---|---|---|---|---|---|
| Geoff Muirhead | **15.50** | **55** | 50 | **64** | 66 |
| Rowena Burns *(Note 1)* | **17.58** | **43** | 39 | **129** | 118 |

| | *Transfer value at 31 March 2003 £'000* | Changes to transfer value £'000 | ***Transfer value at 31 March 2004 £'000*** |
|---|---|---|---|
| *Geoff Muirhead* | *660* | 70 | **730** |
| Rowena Burns *(Note 1)* | 603 | 72 | **675** |

*Notes*

*(1) Rowena Burns pensionable service with the Greater Manchester Pension Fund at 31 March 2004 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.*



***Alan Jones***

Chair of the Remuneration and Review Committee

20 July 2004

# Directors' Report

## for the year ended 31 March 2004

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2004.

**Principal activities**

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

**Results, review of business and future developments**

The consolidated results for the year are set out on page 21.

The Company intends to continue its development of the Group 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 Chair's Statement and the Operating and Finance Reviews.

**Dividends and transfers to reserves**

The Directors recommend that a final dividend of £16,500,000 (8.08 pence per share) (2003: £5,500,000 (2.69 pence per share)) is declared. After taking account of these dividends, the retained profit for the year of £18,983,000 (2003: restated loss of £1,593,000) will be transferred to reserves.

**Shareholders**

The Shareholders as at 31 March 2004 are set out below.

| | 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 |

**The Board of Directors**

During the year the Group Board, in consultation with the Shareholders, conducted a thorough review of corporate governance across the Group. Their review covered, and made recommendations to change, the function of the Shareholders' Committee, the relationship between the Shareholders' Committee and the Company, the composition of the Board of Directors and the relationship between the trading divisions and the Group centre.

The main recommendations of the review were to change the composition of the Board, to include a higher proportion of external non-executive directors, reduce the proportion of shareholder representative non-executive directors, to appoint an independent external Chair for a fixed term of years, to redefine the function of the Shareholders' Committee, and its relationship with the Company, and to replace the non-executive directors serving on the subsidiary trading company boards with the Group executive directors. The recommendations were implemented with effect from 31 December 2003.

At the beginning of the year under review The Manchester Airport Group PLC Board comprised twelve directors including six non-executive directors nominated by the local authority shareholders. On 12 June 2003 Robert Howarth resigned as Chairman and Claire Nangle and Mark Hunter resigned from the Board. Robert Howarth, David Lancaster, Joyce Keller and Margaret Salmon resigned from the Board on 31 December 2003. The board of directors as at 31 March 2004 is detailed on page 13.

**Changes to the Board of Directors since the year end**

There have been no changes to the Board of Directors since the year end.

**Contracts of significance**

Details of contracts of significance with The Council of the City of Manchester are set out in Note 36 to these financial statements.

# Directors' Report

for the year ended 31 March 2004

continued

**Employees**

**Employment Policies**

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

The Group 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.

**Diversity**

The Group 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 a Diversity Programme, which aims to ensure that these objectives are achieved.

**Consultation and Communication**

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. In October 2003 all employees were invited to take part in a Group wide survey of employee views. Employees received a written summary of the results of the survey and were given the opportunity to discuss these with their respective management teams.

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 Company'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 by the Company at 31 March 2004 was 32 days (2003: 33 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 by the Company and its subsidiaries during the year totalled £203,000. The donations were all made to recognised local charities for a variety of purposes. It is the Group's policy not to make contributions to political parties.

**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

S Welsh

**S Welsh**
**Secretary**
***For and on behalf of***
**Manchester Professional Services Limited**
20 July 2004

# 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 and cash flows 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.

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.

# 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. We have also, at the request of the Directors, audited the disclosures, that would be required by Part 3 of Schedule 7A to the Companies Act 1985 if the Company was a listed Company, contained in the Directors' Remuneration Report ('the auditable part').

**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. The Directors have also taken responsibility for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 and whether the auditable part of the Directors' Remuneration Report has been properly prepared as if Part 3 of Schedule 7A to the Companies Act 1985 applied to the Company. 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 Chair's Statement, the Operating Review, the Finance Review, the Directors' Report, the Report on Corporate Governance, and the unaudited part of the Directors' Remuneration Report.

**Basis of audit opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 2004 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, and those parts of the Directors' Remuneration Report that would be required by Part 3 of Schedule 7A of the Companies Act 1985, have been properly prepared as if Part 3 of Schedule 7A to the Companies Act 1985 applied to the Company.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
**Chartered Accountants and Registered Auditors**
***Manchester***

*20 July 2004*

# Consolidated profit and loss account

for the year ended 31 March 2004

| | Notes | 2004 £'000 | As restated 2003 £'000 |
|---|---|---|---|
| **Turnover** | 1 | **352,920** | 328,153 |
| Operating profit before restructuring costs | | **89,265** | 60,148 |
| Restructuring costs | 2 | **–** | (14,311) |
| **Operating profit** | | **89,265** | 45,837 |
| Exceptional item | 3 | **–** | 3,013 |
| Interest receivable and similar income | 6 | **2,539** | 2,798 |
| Interest payable and similar charges | 7 | **(41,235)** | (40,433) |
| **Profit on ordinary activities before taxation** | 8 | **50,569** | 11,215 |
| Taxation on profit on ordinary activities | 9 | **(15,086)** | (7,308) |
| **Profit on ordinary activities after taxation** | | **35,483** | 3,907 |
| Equity dividends | 11 | **(16,500)** | (5,500) |
| **Retained profit / (loss) for the financial year** | 29 | **18,983** | (1,593) |

*The results presented above are all derived from the Group's continuing operations.*

The results for the prior year have been restated following a change in the accounting policy for deferred taxation as set out in Note 27.

# Statement of group total recognised gains and losses

for the year ended 31 March 2004

| | Notes | 2004 £'000 | As restated 2003 £'000 |
|---|---|---|---|
| Profit for the financial year | | **35,483** | 3,907 |
| Unrealised surplus on revaluation of fixed assets | 29 | **256,606** | 535 |
| **Total gains recognised during the year** | | **292,089** | 4,442 |
| Prior year adjustment | 27 | **(33,653)** | |
| **Total gains and losses recognised since last annual report** | | **258,436** | |

# Note of group historical cost profits

for the year ended 31 March 2004

| | Notes | 2004 £'000 | As restated 2003 £'000 |
|---|---|---|---|
| Reported profit on ordinary activities before taxation | | **50,569** | 11,215 |
| Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount | 29 | **13,153** | 13,968 |
| **Historical cost profit on ordinary activities before taxation** | | **63,722** | 25,183 |
| **Historical cost profit for the year retained after taxation and dividends** | | **32,136** | 12,375 |

# Reconciliation of movements in group equity shareholders' funds

for the year ended 31 March 2004

| | 2004 £'000 | As restated 2003 £'000 |
|---|---|---|
| Opening shareholders' funds as previously reported | **643,812** | 643,088 |
| Prior year adjustment | **(33,653)** | (31,871) |
| Opening shareholders' funds as restated | **610,159** | 611,217 |
| Profit attributable to shareholders | **35,483** | 3,907 |
| Dividends | **(16,500)** | (5,500) |
| | **18,983** | (1,593) |
| Unrealised surplus on revaluation of fixed assets | **256,606** | 535 |
| **Equity shareholders' funds as at 31 March** | **885,748** | 610,159 |

# Consolidated balance sheet

as at 31 March 2004

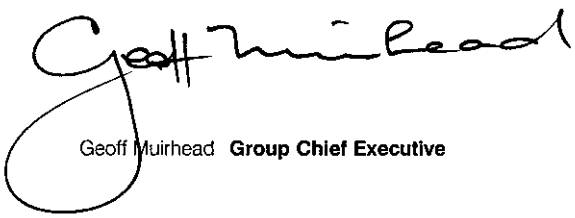
| | Notes | 2004 £'000 | As restated 2003 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 12 | **2,153** | 2,471 |
| Tangible assets | 13 | **1,359,694** | 1,115,382 |
| Investments | 14 | **3,710** | 2,912 |
| | | **1,365,557** | 1,120,765 |
| **Current assets** | | | |
| Stocks | 16 | **1,495** | 4,118 |
| Debtors | 17 | **34,751** | 34,870 |
| Cash at bank and in hand | 18 | **100,409** | 78,298 |
| | | **136,655** | 117,286 |
| **Creditors: amounts falling due within one year** | 19 | **(130,825)** | (97,961) |
| **Net current assets** | | **5,830** | 19,325 |
| **Total assets less current liabilities** | | **1,371,387** | 1,140,090 |
| **Creditors: amounts falling due after more than one year** | 20 | **(441,090)** | (488,189) |
| **Provisions for liabilities and charges** | 27 | **(44,549)** | (41,742) |
| **Net assets** | | **885,748** | 610,159 |
| **Capital and reserves** | | | |
| Called up share capital | 28 | **204,280** | 204,280 |
| Revaluation reserve | 29 | **475,639** | 232,186 |
| Profit and loss account | 29 | **205,829** | 173,693 |
| **Equity shareholders' funds** | | **885,748** | 610,159 |

The prior year comparatives have been restated following a change in the accounting policy for deferred taxation as set out in Note 27.

The financial statements on pages 21 to 55 were approved by the Board of Directors on 20 July 2004 and signed on its behalf by:



Alan Jones **Chair**



Geoff Muirhead **Group Chief Executive**

# Company balance sheet

as at 31 March 2004

| | Notes | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 13 | **246** | 125 |
| Investments | 14 | **349,938** | 318,089 |
| | | **350,184** | 318,214 |
| **Current assets** | | | |
| Debtors | 17 | **157,570** | 15,637 |
| Cash | 18 | **105,662** | 52,383 |
| | | **263,232** | 68,020 |
| **Creditors: amounts falling due within one year** | 19 | **(19,099)** | (83,881) |
| **Net current assets / (liabilities)** | | **244,133** | (15,861) |
| **Total assets less current liabilities** | | **594,317** | 302,353 |
| **Creditors: amounts falling due after more than one year** | 20 | **(363,998)** | (96,319) |
| **Net assets** | | **230,319** | 206,034 |
| **Capital and reserves** | | | |
| Called up share capital | 28 | **204,280** | 204,280 |
| Profit and loss account | 29 | **26,039** | 1,754 |
| **Equity shareholders' funds** | 30 | **230,319** | 206,034 |

The financial statements on pages 21 to 55 were approved by the Board of Directors on 20 July 2004 and signed on its behalf by:

Alan Jones **Chair**

Geoff Muirhead **Group Chief Executive**

# Consolidated cash flow statement

for the year ended 31 March 2004

| | Notes | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | | **149,434** | 112,230 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **2,144** | 2,710 |
| Interest paid | | **(36,074)** | (37,535) |
| Issue costs of new bank loans | 25 | **(2,200)** | (9) |
| Interest element of finance lease rentals | | **(1,279)** | (1,688) |
| **Net cash outflow from returns on investment and servicing of finance** | | **(37,409)** | (36,522) |
| **Taxation** | | | |
| UK corporation tax paid | | **(4,808)** | (6,178) |
| **Cash outflow from taxation** | | **(4,808)** | (6,178) |
| **Capital expenditure and financial investment** | | | |
| Purchase of tangible fixed assets | | **(37,458)** | (51,093) |
| Sale of tangible fixed assets | | **3,550** | 6,519 |
| Additions to fixed asset investments | | **(909)** | (1,153) |
| Grants received | | **2,227** | 4,569 |
| **Net cash outflow from investing activities** | | **(32,590)** | (41,158) |
| **Acquisitions** | | | |
| Purchase of subsidiary undertaking | | **–** | (14,188) |
| Acquisition costs | | **–** | (269) |
| **Net cash outflow from acquisitions** | | **–** | (14,457) |
| **Disposals** | | | |
| Disposal of shares in business held exclusively for subsequent resale | | **–** | 11,119 |
| Repayment of loan due from business held exclusively for subsequent resale | | **–** | 4,542 |
| Disposal costs | | **–** | (355) |
| **Net cash inflow from disposals** | | **–** | 15,306 |
| **Equity dividends paid** | | | |
| Ordinary dividends | | **(5,500)** | (5,000) |
| **Net cash inflow before use of liquid resources and financing** | | **69,127** | 24,221 |
| Increase in short term deposits with banks | 25 | **(2,004)** | (4,383) |
| Receipts from current asset investments | | **–** | 7 |
| **Net cash outflow from management of liquid resources** | 25 | **(2,004)** | (4,376) |
| **Financing** | | | |
| Bank loans raised | 25 | **200,000** | – |
| Bank loans repaid | 25 | **(240,062)** | (3,985) |
| Other loan repayments | 25 | **(4,447)** | (4,066) |
| Capital element of finance lease payments | 25 | **(2,345)** | (4,543) |
| **Net cash outflow from financing** | 25 | **(46,854)** | (12,594) |
| **Increase in net cash** | 25 | **20,269** | 7,251 |

# Reconciliation of operating profit to net cash inflow from operating activities

| | Notes | **2004** **£'000** | 2003 £'000 |
|---|---|---|---|
| Operating profit before restructuring costs | | **89,265** | 60,148 |
| Restructuring costs | | **–** | (14,311) |
| **Operating profit** | | **89,265** | 45,837 |
| Depreciation on tangible fixed assets | | **56,952** | 60,890 |
| Profit on disposal of tangible fixed assets | | **(794)** | (940) |
| Amortisation of goodwill | | **318** | 318 |
| Amounts written off fixed asset investments | | **–** | 389 |
| Decrease in stocks | | **2,623** | 1,475 |
| Decrease in debtors | | **532** | 8,670 |
| Release of grants | | **(981)** | (608) |
| Increase / (decrease) in creditors | | **1,361** | (4,244) |
| Increase in provisions | | **158** | 443 |
| **Net cash inflow from operating activities** | | **149,434** | 112,230 |

# Reconciliation of net cash flow to movement in net debt

| | Notes | **2004** **£'000** | 2003 £'000 |
|---|---|---|---|
| Increase in cash in year | 25 | **20,269** | 7,251 |
| Cash outflow from management of liquid resources | 25 | **2,004** | 4,376 |
| Cash outflow from repayment of debt (including issue costs paid) | | **49,054** | 12,603 |
| **Change in net debt resulting from cash flows** | | **71,327** | 24,230 |
| Other non-cash movements | 25 | **(4,334)** | (948) |
| **Movement in net debt** | | **66,993** | 23,282 |
| Net debt at 1 April | 25 | **(390,019)** | (413,301) |
| **Net debt at 31 March** | 25 | **(323,026)** | (390,019) |

Other non-cash movements comprise amortisation of issue costs of bank loans.

# 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.

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.

**Change in accounting policies**

The previous policy of measuring deferred taxation on a discounted basis has been discontinued and the deferred taxation liability is now shown on an undiscounted basis. This change has been made to align the Group's accounting policy with other comparable companies in the airport sector and to simplify the transition towards adopting International Financial Reporting Standards.

The impact of the change in policy is to increase the deferred tax charge in the current year by £2,697,000. In the prior year, the change in accounting policy increased the deferred tax charge by £1,782,000.

**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.

Development profits are recognised upon legal completion of contracts.

**Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation, modified by the revaluation of all significant operational 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 |
|---|---|
| Freehold and 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 the 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.

# Accounting policies
continued

**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.

**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.

**Investment income**
Income from investments, together with any related tax credit, is included in the consolidated profit and loss account on an accruals basis.

# Accounting policies

continued

**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 only 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 in the relevant period.

**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.

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

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

Deferred tax assets and liabilities are not discounted.

**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 SSAP number 24. Further details of the Group pension schemes are set out in Note 35. Contributions to defined contribution schemes are charged in the year in which the contributions are made.

**Unfunded pension liabilities**

Provisions are made for the capital cost of unfunded pension liabilities, in accordance with the recommendations of an independent actuary.

# Notes to the financial statements

for the year ended 31 March 2004

## 1. Turnover

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| **Aviation income** | **169,860** | 163,233 |
| **Commercial income** | | |
| Baggage and freight handling | **21,723** | 21,979 |
| Car parking | **39,896** | 34,642 |
| Property and property related income | **39,298** | 30,358 |
| Concessions | **58,585** | 49,175 |
| Other | **23,558** | 28,766 |
| **Total commercial income** | **183,060** | 164,920 |
| **Total income** | **352,920** | 328,153 |

Turnover is exclusively earned within the United Kingdom.

## 2. Operating profit

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| **Turnover** | **352,920** | 328,153 |
| **Net staff costs** | | |
| Wages and salaries | **60,566** | 64,826 |
| Social security costs | **5,248** | 4,943 |
| Other pension costs | **6,312** | 6,113 |
| | **72,126** | 75,882 |
| Depreciation and amortisation | **57,270** | 61,208 |
| Other operating charges before restructuring costs | **134,259** | 130,915 |
| **Operating profit before restructuring costs** | **89,265** | 60,148 |
| **Restructuring costs:** | | |
| Security staff reorganisation | **–** | 4,323 |
| Manchester Airport management restructure | **–** | 763 |
| Other restructurings | **–** | 9,225 |
| **Total restructuring costs** | **–** | 14,311 |
| **Operating profit** | **89,265** | 45,837 |

Staff costs shown above are stated net of £728,000 (2003: £583,000), which has been capitalised into the cost of fixed assets. This represents Group employee costs that are directly attributable to the construction of tangible fixed assets.

# Notes to the financial statements

for the year ended 31 March 2004

## 3. Exceptional item

The exceptional item in the year ended March 2003 related to the gain on the disposal of Ringway Hotels (Holdings) Limited. The disposal was exempt from capital gains tax by virtue of the 'Substantial Shareholdings Exemption' introduced in the Finance Act 2002.

## 4. Employee information

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

| | **2004 Number** | 2003 Number |
|---|---|---|
| **By location** | | |
| Manchester Airport | **2,082** | 2,365 |
| Nottingham East Midlands Airport | **251** | 235 |
| Bournemouth Airport | **106** | 130 |
| Humberside Airport | **134** | 122 |
| | **2,573** | 2,852 |

## 5. Directors' emoluments

Further details of directors' emoluments and a description of the Group's remuneration policy are set out on pages 14 to 16 in the Remuneration Report.

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Aggregate emoluments | **1,035** | 908 |

The above emoluments include amounts paid in to money purchase schemes for one director of £26,000 (2003: £31,000).

Retirement benefits are accruing to two Directors (2003: two) under a defined benefit scheme.

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| **Highest paid director** | | |
| Aggregate emoluments and benefits | **342** | 324 |
| Defined benefit scheme: | | |
| Accrued pension at end of year | **55** | 50 |
| Accrued lump sum at end of year | **64** | 66 |

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

# Notes to the financial statements

for the year ended 31 March 2004

## 6. Interest receivable and similar income

| | **2004** | 2003 |
|---|---|---|
| | **£'000** | £'000 |
| Income from fixed asset investments | **389** | 66 |
| Bank interest receivable | **1,957** | 2,732 |
| Other interest receivable | **193** | – |
| | **2,539** | 2,798 |

Income from fixed asset investments is capitalised into the cost of investments to the extent that it is not paid.

## 7. Interest payable and similar charges

| | **2004** | 2003 |
|---|---|---|
| | **£'000** | £'000 |
| Interest payable on bank loans and overdrafts | **15,050** | 17,065 |
| Interest payable on finance leases | **1,389** | 1,582 |
| Interest payable on other borrowings | **20,462** | 20,838 |
| Amortisation of issue costs of bank loans | **923** | 948 |
| Write off of issue costs of bank loans | **3,411** | – |
| | **41,235** | 40,433 |

Interest payable on bank loans and overdrafts includes a redemption premium of £1.8 million (2003: £nil).

## 8. Profit on ordinary activities before taxation

| | **2004** | 2003 |
|---|---|---|
| | **£'000** | £'000 |
| Profit on ordinary activities before taxation is stated after charging / (crediting): | | |
| Release of capital based grants | **(981)** | (608) |
| Auditors' remuneration: | | |
| Group audit fees | **179** | 159 |
| Non-audit services | | |
| Refinancing | **35** | – |
| Consultancy | **451** | – |
| Taxation advice | **218** | 243 |
| Post acquisition integration and completion account services | **–** | 4 |
| Pensions advice | **68** | 28 |
| Hire of plant and machinery – operating leases | **126** | 2,080 |
| Hire of other assets – operating leases | **9,091** | 10,314 |
| Depreciation of tangible fixed assets: | | |
| Owned assets | **56,418** | 55,808 |
| Leased assets | **534** | 5,082 |
| Goodwill amortisation | **318** | 318 |
| Profit on disposal of tangible fixed assets | **(794)** | (940) |
| Amounts written off fixed asset investments | **–** | 389 |

Auditor's remuneration includes £11,000 (2003: £11,000) in respect of the audit of the Company.

# Notes to the financial statements

for the year ended 31 March 2004

## 9. Taxation

| | 2004 £'000 | As restated 2003 £'000 |
|---|---|---|
| **Current taxation** | | |
| UK Corporation tax on profits for the year | 16,799 | 4,687 |
| Adjustment in respect of prior year | (4,362) | (47) |
| **Total current tax** | **12,437** | 4,640 |
| **Deferred taxation** | | |
| Origination and reversal of timing differences | 2,649 | 2,668 |
| **Total deferred taxation** | **2,649** | 2,668 |
| **Total tax charge for the year** | **15,086** | 7,308 |

**Factors affecting the current tax charge for the year**

The tax for the year ended 31 March 2004 is lower than the standard rate of corporation taxation in the UK of 30%.

A detailed reconciliation is set out in the following table.

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Profit on ordinary activities before taxation | **50,569** | 11,215 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% | **15,171** | 3,364 |
| Effect of: | | |
| Uplift in depreciation on revalued element of assets | **3,954** | 4,200 |
| Restructuring costs not previously deductible for tax purposes | **(648)** | (127) |
| Other expenses that are not deductible for tax purposes | **1,249** | 1,535 |
| Capital allowances in excess of historical cost depreciation | **(2,451)** | (4,164) |
| Short term timing differences | **487** | 803 |
| Tax exempt sale of shares in Ringway Hotels (Holdings) Limited | **–** | (904) |
| Losses utilised | **(963)** | (20) |
| Adjustments to prior year tax charge | **(4,362)** | (47) |
| **Group current tax charge for the year (above)** | **12,437** | 4,640 |

**Factors affecting the tax charge in future years**

The Group's current tax charge of £12.437 million when compared to pre-tax profits of £50.569 million, results in an effective tax rate of 25% compared to the standard rate of corporation tax in the UK of 30%. The effective tax rate is lower than the standard rate of corporation tax primarily due to the impact of the prior year credit of £4.362 million. As shown above the uplift in depreciation following the revaluation of operating assets is substantially offset by capital allowances in excess of historical cost depreciation.

The impact of the revaluation depreciation will usually 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 current tax charge in future years.

# Notes to the financial statements

for the year ended 31 March 2004

## 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 30, the profit attributable to the shareholders includes a profit of £40,785,000, before dividends payable, dealt with in the financial statements of the Company.

## 11. Dividends

| | **2004** | 2003 |
|---|---|---|
| | **£'000** | £'000 |
| **Ordinary** | | |
| Final dividend declared of 8.08 pence (2003: 2.69 pence) per share | **16,500** | 5,500 |

## 12. Intangible fixed assets

| | **£'000** |
|---|---|
| **Goodwill** | |
| **Cost** | |
| At 31 March 2003 and 31 March 2004 | **3,493** |
| **Amortisation** | |
| At 31 March 2003 | 1,022 |
| Charge for year | 318 |
| **At 31 March 2004** | **1,340** |
| **Net book value** | |
| **At 31 March 2004** | **2,153** |
| At 31 March 2003 | 2,471 |

# Notes to the financial statements

for the year ended 31 March 2004

## 13. Tangible fixed assets

| | Investment properties £'000 | Freehold land and property £'000 | Long leasehold property £'000 | Airport infrastructure £'000 | Plant, fixtures and equipment £'000 | Leased assets £'000 | Assets in the course of construction £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Cost or valuation** | | | | | | | | |
| At 1 April 2003 | – | 227,141 | 268,629 | 396,537 | 293,651 | 63,729 | 54,469 | 1,304,156 |
| Reclassification | 142,253 | (57,122) | (12,663) | (15,339) | (8,422) | 21,192 | (69,899) | – |
| Additions | – | 2,159 | 203 | 11,754 | 3,698 | – | 29,600 | 47,414 |
| Disposals | – | (2,590) | – | – | (753) | – | – | (3,343) |
| Revaluation | 35,271 | 26,452 | 56,353 | 193,102 | 118,710 | – | – | 429,888 |
| **At 31 March 2004** | **177,524** | **196,040** | **312,522** | **586,054** | **406,884** | **84,921** | **14,170** | **1,778,115** |
| **Depreciation** | | | | | | | | |
| At 1 April 2003 | – | 4,633 | 18,866 | 29,015 | 82,450 | 53,810 | – | 188,774 |
| Charge for the year | – | 2,319 | 9,037 | 12,766 | 31,577 | 1,253 | – | 56,952 |
| Disposals | – | – | – | – | (587) | – | – | (587) |
| Revaluation | – | 30,101 | 25,401 | 58,574 | 68,624 | (9,418) | – | 173,282 |
| **At 31 March 2004** | **–** | **37,053** | **53,304** | **100,355** | **182,064** | **45,645** | **–** | **418,421** |
| **Net book value** | | | | | | | | |
| **At 31 March 2004** | **177,524** | **158,987** | **259,218** | **485,699** | **224,820** | **39,276** | **14,170** | **1,359,694** |
| **Net book value** | | | | | | | | |
| At 31 March 2003 | – | 222,508 | 249,763 | 367,522 | 211,201 | 9,919 | 54,469 | 1,115,382 |
| Cost or valuation at 31 March 2004 is represented by: | | | | | | | | |
| At valuation | 177,524 | 196,040 | 302,610 | 576,119 | 396,552 | – | – | 1,648,845 |
| At cost | – | – | 9,912 | 9,935 | 10,332 | 84,921 | 14,170 | 129,270 |
| | **177,524** | **196,040** | **312,522** | **586,054** | **406,884** | **84,921** | **14,170** | **1,778,115** |

**Revaluation policy**

**Investment properties**

In accordance with SSAP 19, investment properties are not depreciated. All investment properties were valued on 31 March 2004 on the basis of open market value by Lambert Smith Hampton and 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, £104,645,000 (2003: £76,015,000) comprises freehold land and buildings, with the remainder, £72,879,000 (2003: £29,579,000) representing long leasehold land and buildings.

**Operational assets**

It is Group policy to revalue operational assets at least every five years with interim valuations every three years. An interim valuation was undertaken on 31 March 2004 by Gleeds, International Management and Construction Consultants.

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

# Notes to the financial statements

for the year ended 31 March 2004

## 13. Tangible fixed assets continued

The net book values of leased assets and assets in the course of construction are shown on the table on page 35. The net book value of operational land as at 31 March 2004 was £56,802,000 (2003 : £54,643,000) and the net book value of those short life assets that are not revalued are:

| | **Net book value at 31 March 2004 £'000** |
|---|---|
| Long leasehold property | 8,221 |
| Airport infrastructure | 8,234 |
| Plant, fixtures and equipment | 10,332 |

**Historical cost**

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

| | Investment properties £'000 | Freehold land and property £'000 | Long leasehold property £'000 | Airport infrastructure £'000 | Plant, fixtures and equipment £'000 | Leased assets £'000 | Assets in the course of construction £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **At March 2004** | | | | | | | | |
| Cost | 72,260 | 206,101 | 324,736 | 392,873 | 413,832 | 84,921 | 14,170 | 1,508,893 |
| Aggregate depreciation based on cost | – | 3,288 | 127,986 | 172,237 | 265,814 | 55,513 | – | 624,838 |
| At 31 March 2003 | | | | | | | | |
| Cost | – | 209,689 | 321,168 | 396,458 | 419,309 | 63,729 | 54,469 | 1,464,822 |
| Aggregate depreciation based on cost | – | 1,505 | 121,036 | 163,006 | 241,530 | 54,549 | – | 581,626 |

| | Plant and machinery, motor vehicles £'000 | Total £'000 |
|---|---|---|
| **Company** | | |
| **Cost** | | |
| At 1 April 2003 | 137 | 137 |
| Additions | 184 | 184 |
| Disposals | (28) | (28) |
| **At 31 March 2004** | **293** | **293** |
| **Depreciation** | | |
| At 1 April 2003 | 12 | 12 |
| Charge for the year | 40 | 40 |
| Disposals | (5) | (5) |
| **At 31 March 2004** | **47** | **47** |
| **Net book value** | | |
| **At 31 March 2004** | **246** | **246** |
| Net book value | | |
| At 31 March 2003 | 125 | 125 |

# Notes to the financial statements

for the year ended 31 March 2004

## 14. Fixed asset investments

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| **Group** | | |
| **Venture Capital investments:** | | |
| At 1 April | **2,894** | 2,108 |
| Additions in the year | **1,298** | 1,153 |
| Provision for impairment | **(500)** | – |
| Amounts written off | **–** | (367) |
| **At 31 March** | **3,692** | 2,894 |
| **Trade investments:** | | |
| At 1 April | **18** | 190 |
| Transfer to fixed assets | **–** | (150) |
| Amounts written off investments | **–** | (22) |
| **At 31 March** | **18** | 18 |
| **Total investments at cost less amounts written off** | **3,710** | 2,912 |

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| **Company** | | |
| **Subsidiary undertakings:** | | |
| At 1 April | **318,071** | 207,497 |
| Additions | **31,849** | 110,574 |
| **At 31 March** | **349,920** | 318,071 |
| **Trade investments:** | | |
| At 1 April | **18** | 40 |
| Provision for impairment | **–** | (22) |
| **At 31 March** | **18** | 18 |
| **Total investments at cost less amounts written off** | **349,938** | 318,089 |

The additions to subsidiary undertakings in the year represent an additional subscription to the ordinary shares of Crow Aerodromes Limited, which is, and was previously, a wholly owned subsidiary.

# Notes to the financial statements

for the year ended 31 March 2004

## 15. Principal 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 Petroleum 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 Ventures Limited | Ordinary £1 shares | 100% | 100% |
| Ringway Developments PLC | Ordinary £1 shares | 100% | – |
| Ringway Handling Services Limited | Ordinary £1 shares | 100% | – |
| Ringway Handling Limited | Ordinary £1 shares | 100% | – |
| Worknorth Limited | Preference shares | 100% | – |
| | Ordinary £1 shares | 100% | – |
| Worknorth II Limited | Cumulative participating £1 preference shares | 100% | – |
| | Ordinary £1 shares | 100% | – |

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

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A full list of subsidiary undertakings as at 31 March 2004 will be appended to the Company's next annual return.

At 31 March 2004, Worknorth II Limited was a 100% subsidiary of Manchester Airport PLC following a group reorganisation in January 2004. Prior to that date, Worknorth II and its wholly owned subsidiary Worknorth Limited were consolidated on the grounds of dominant influence. The change in ownership has had no impact on the financial statements.

# Notes to the financial statements

for the year ended 31 March 2004

## 15. Principal subsidiary undertakings continued

The principal activities of those subsidiaries are as follows:

| | |
|---|---|
| Airport Advertising Limited | – Management of advertising and promotions at UK airports |
| Airport Petroleum Limited | – Petroleum retail at Manchester Airport |
| 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 Ventures Limited | – Intermediate holding company for Airport Advertising Limited, Airport Management Consultants Limited, Airport Petroleum Limited and Airport Trading Limited |
| 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 |
| 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 |

## 16. Stocks

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **£'000** | £'000 |
| Consumables | **1,495** | 1,892 |
| Property development work in progress | **–** | 2,226 |
| | **1,495** | 4,118 |

# Notes to the financial statements

for the year ended 31 March 2004

## 17. Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 |
| **Amounts falling due within one year** | | | | |
| Trade debtors | **24,735** | 30,544 | **–** | – |
| Corporation tax recoverable | **740** | 186 | **–** | – |
| Other debtors | **1,944** | 1,616 | **153** | 139 |
| Amounts due from subsidiary undertakings | **–** | – | **157,406** | 15,464 |
| Prepayments and accrued income | **7,332** | 2,524 | **11** | 34 |
| | **34,751** | 34,870 | **157,570** | 15,637 |

## 18. Cash at bank and in hand

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2004** | 2003 | **2004** | 2003 |
| | Notes | **£'000** | £'000 | **£'000** | £'000 |
| Cash accessible on demand | 25 | **35,409** | 15,302 | **40,662** | 10,383 |
| Short term deposits | 25 | **65,000** | 62,996 | **65,000** | 42,000 |
| | | **100,409** | 78,298 | **105,662** | 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.

Included within short term deposits is £nil (2003: £13.4 million) the use of which is subject to certain restrictions.

## 19. Creditors: amounts falling due within one year

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2004** | 2003 | **2004** | 2003 |
| | Notes | **£'000** | £'000 | **£'000** | £'000 |
| Bank overdrafts | 21 | **–** | 162 | **–** | – |
| Bank loans | 21 | **–** | 3,749 | **–** | – |
| Other borrowings | 21 | **5,115** | 4,670 | **–** | – |
| Obligations under finance leases | 21 | **2,307** | 2,345 | **–** | – |
| Trade creditors | | **38,148** | 32,418 | **175** | – |
| Amounts owed to subsidiary undertakings | | **–** | – | **92** | 74,178 |
| Corporation tax | | **13,043** | 4,860 | **–** | – |
| Other taxation and social security | | **2,971** | 2,090 | **–** | – |
| Other creditors | | **3,148** | 3,761 | **–** | 130 |
| Accruals and deferred income | | **48,336** | 37,461 | **2,332** | 4,073 |
| Capital-based grants | | **1,257** | 945 | **–** | – |
| Dividends payable | | **16,500** | 5,500 | **16,500** | 5,500 |
| | | **130,825** | 97,961 | **19,099** | 83,881 |

# Notes to the financial statements

for the year ended 31 March 2004

## 20. Creditors: amounts falling due after more than one year

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2004** | 2003 | **2004** | 2003 |
| | Notes | **£'000** | £'000 | **£'000** | £'000 |
| Bank loans | 21 | **197,444** | 231,623 | **197,444** | 94,569 |
| Other borrowings | 21 | **199,612** | 204,504 | **–** | – |
| Amounts owed to subsidiary undertakings | | **–** | – | **166,554** | 1,750 |
| Obligations under finance leases | 21 | **18,957** | 21,264 | **–** | – |
| Other creditors | | **750** | 750 | **–** | – |
| Accruals and deferred income | | **2,515** | 9,170 | **–** | – |
| Capital-based grants | | **21,812** | 20,878 | **–** | – |
| | | **441,090** | 488,189 | **363,998** | 96,319 |

## 21. Maturity analysis of bank loans, bank overdrafts, other borrowings and finance leases

| | | Group | |
|---|---|---|---|
| | | **2004** | 2003 |
| | Notes | **£'000** | £'000 |
| **In one year or less, or on demand** | | | |
| Overdraft | | **–** | 162 |
| Bank loans | | **–** | 3,749 |
| Other borrowings | | **5,115** | 4,670 |
| Obligations under finance leases | | **2,307** | 2,345 |
| | | **7,422** | 10,926 |
| **In more than one year, but no more than two years** | | | |
| Bank loans | | **–** | 98,649 |
| Other borrowings | | **5,268** | 4,777 |
| Obligations under finance leases | | **3,107** | 2,307 |
| | | **8,375** | 105,733 |
| **In more than two years, but no more than five years** | | | |
| Bank loans | | **–** | 14,401 |
| Other borrowings | | **24,081** | 22,470 |
| Obligations under finance leases | | **8,858** | 8,598 |
| | | **32,939** | 45,469 |
| **In more than five years – due other than by instalments** | | | |
| Bank loans | | **197,444** | – |
| Other borrowings | | **75,272** | 74,058 |
| | | **272,716** | 74,058 |
| **In more than five years – due by instalments** | | | |
| Bank loans | | **–** | 118,573 |
| Other borrowings | | **94,991** | 103,199 |
| Obligations under finance leases | | **6,992** | 10,359 |
| | | **101,983** | 232,131 |
| **Total** | | | |
| Bank overdraft | | **–** | 162 |
| Bank loans | 22 | **197,444** | 235,372 |
| Other borrowings | 23 | **204,727** | 209,174 |
| Obligations under finance leases | | **21,264** | 23,609 |
| | | **423,435** | 468,317 |

# Notes to the financial statements

for the year ended 31 March 2004

## 22. Bank loans

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **£'000** | £'000 |
| Unsecured syndicated bank revolving credit of £200 million repayable wholly on 1 April 2009 *(Note 1)* | **200,000** | – |
| 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 |
| Secured bank loan of £85.062 million at an annual interest rate of LIBOR plus 1.75% | **–** | 85,062 |
| Secured bank loan of £15 million at an annual interest rate of LIBOR plus 2.25% | **–** | 15,000 |
| Secured bank loan of £15 million at an annual interest rate of LIBOR plus 2.25% | **–** | 15,000 |
| Secured bank loan of £30 million at a fixed annual interest rate of 12% | **–** | 30,000 |
| Gross bank loans | **200,000** | 240,062 |
| Less: unamortised debt issue costs | **(2,556)** | (4,690) |
| | **197,444** | 235,372 |
| The total value of loans repayable by instalments, any part of which falls due after more than five years | **–** | 140,803 |

*Note 1.* The unsecured syndiated bank revolving credit facility is subject to a floating interest rate linked to LIBOR at a range of margins.

**Security provided on bank loans**

Bank loans amounting to £nil (2003: £145,062,000) are secured by a debenture over the assets of Crow Aerodromes Limited. This debenture was guaranteed by and secured over the assets of East Midlands International Airport Limited, Astrobold Limited and Bournemouth International Airport Limited.

# Notes to the financial statements

for the year ended 31 March 2004

## 23. Other borrowings

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **£'000** | £'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) | **6,899** | 7,119 |
| In 49 half yearly instalments commencing 1 June 1993 at an interest rate of 10.375% (secured) | **10,780** | 11,136 |
| In 49 half yearly instalments commencing 1 April 1993 at an interest rate of 10.375% (secured) | **16,924** | 17,481 |
| In 48 half yearly instalments commencing 1 August 1993 at an interest rate of 10.375% (secured) | **16,622** | 17,209 |
| In 48 half yearly instalments commencing 1 July 1994 at an interest rate of 9.5% (secured) | **16,131** | 16,667 |
| In 48 half yearly instalments commencing 1 September 1994 at an interest rate of 9.5% (secured) | **16,131** | 16,667 |
| In 48 half yearly instalments commencing 1 May 1994 at an interest rate of 9.5% (secured) | **14,560** | 15,045 |
| In 49 half yearly instalments commencing 1 May 1994 at an interest rate of 7.875% (secured) | **1,202** | 1,245 |
| In 30 half yearly instalments commencing 1 September 1995 at an interest rate of 9.125% (secured) | **2,810** | 3,148 |
| Secured loan from Tameside MBC at the Greater Manchester Metropolitan Debt Administration Fund rate (2004: 7.7% (2003: 7.9%)), repayable in 35 annual instalments from 31 March 1987 | **20,833** | 21,364 |
| 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 2004: 5.7%; 2003: 5.6%) | **1,996** | 2,218 |
| Non interest bearing volume related loan to Airport Petroleum Limited from third party | **302** | 302 |
| Non interest bearing volume related loan to Humberside International Airport Limited from third party | **61** | 97 |
| | **125,251** | 129,698 |
| | **204,727** | 209,174 |
| 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 | **124,888** | 129,299 |

**Security of other borrowings**

Loans amounting to £202,368,000 (2003: £206,557,000) 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.

# Notes to the financial statements

for the year ended 31 March 2004

## 24. 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 £19.1 million (2003: £20.3 million).

## 25. Reconciliation of movement in net debt

| | At 1 April 2003 | Cash flow | Debt issue costs paid in year | Other non-cash changes | **At 31 March 2004** |
|---|---|---|---|---|---|
| **Net cash** | | | | | |
| Cash at bank and in hand | 15,302 | 20,107 | – | – | **35,409** |
| Bank overdraft | (162) | 162 | – | – | – |
| | 15,140 | 20,269 | – | – | **35,409** |
| **Liquid resources** | | | | | |
| Short term deposits included in cash | 62,996 | 2,004 | – | – | **65,000** |
| | 62,996 | 2,004 | – | – | **65,000** |
| **Debt due in less than one year** | | | | | |
| Bank loans | (3,749) | 3,749 | – | – | **–** |
| Other borrowings | (4,670) | 4,447 | – | (4,892) | **(5,115)** |
| Finance leases | (2,345) | 2,345 | – | (2,307) | **(2,307)** |
| | (10,764) | 10,541 | – | (7,199) | **(7,422)** |
| **Debt due in more than one year** | | | | | |
| Bank loans | (231,623) | 36,313 | 2,200 | (4,334) | **(197,444)** |
| Other borrowings | (204,504) | – | – | 4,892 | **(199,612)** |
| Finance leases | (21,264) | – | – | 2,307 | **(18,957)** |
| | (457,391) | 36,313 | 2,200 | 2,865 | **(416,013)** |
| **Total debt** | (468,155) | 46,854 | 2,200 | (4,334) | **(423,435)** |
| **Net debt** | (390,019) | 69,127 | 2,200 | (4,334) | **(323,026)** |

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

# Notes to the financial statements

for the year ended 31 March 2004

## 26. Financial instruments

A discussion of the Group's treasury policy and its objectives and strategies for managing financial instruments is presented in the Finance Review on page 4. 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 2004 was as follows:

| | **2004** | 2003 |
|---|---|---|
| | **£'000** | £'000 |
| Fixed rate financial liabilities | **284,900** | 319,736 |
| Floating rate financial liabilities | **138,172** | 148,196 |
| Financial liabilities on which no interest is paid | **363** | 399 |
| | **423,435** | 468,331 |

Financial liabilities shown above are all denominated in sterling. In 2003 other long term liabilities amounting to £0.01 million were included.

Financial liabilities are shown net of unamortised issue costs amounting to £2.6 million (2003: £4.7 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 £95.79 million (2003: £100.06 million) of bank loans and £6.8 million (2003: £7.2 million) of finance leases as fixed rate financial liabilities as at 31 March 2004.

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

| | **2004** | 2003 |
|---|---|---|
| | **£'000** | £'000 |
| Weighted average annual interest rate | 8.33% | 9.45% |
| Weighted average period for which interest rate is fixed | 10y 4m | 11y 0m |

The weighted average period for non-interest bearing liabilities as at 31 March 2004 was 2 years (2003: 2 years).

The Group's interest rate swap, which has notionally been applied to bank loans, has a fixed interest rate of 5.5%. The swap relating to finance leases fixes the interest rate at 5.3%.

**(c) Maturity analysis of financial liabilities**

The maturity profile of the carrying value of the Group's financial liabilities as at 31 March 2004 was as follows.

| | **2004** | 2003 |
|---|---|---|
| | **£'000** | £'000 |
| In one year or less, or on demand | **7,422** | 10,941 |
| In more than one year but not more than two years | **8,375** | 105,733 |
| In more than two years but not more than five years | **32,939** | 45,469 |
| In more than five years | **374,699** | 306,189 |
| | **423,435** | 468,332 |

# Notes to the financial statements

*for the year ended 31 March 2004*

## 26. Financial instruments continued

**Undrawn committed borrowing facilities**

As at 31 March 2004, the Group had an undrawn committed borrowing facility available amounting to £125 million.

| | **2004 Floating rate £'000** | 2003 Floating rate £'000 |
|---|---|---|
| Expiring between 1 and 2 years | **–** | 35,000 |
| Expiring in more than two years | **125,000** | – |
| | **125,000** | 35,000 |

The £125 million facility incurs a commitment fee at market rates.

**Interest rate profile of financial assets**

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Cash at bank and in hand (in accordance with FRS 1) | **35,409** | 15,302 |
| Short term fixed rate, sterling deposits | **65,000** | 62,996 |
| | **100,409** | 78,298 |

All financial assets are denominated in sterling.

The fixed rate assets earn interest at rates between 3.69% and 4.25% 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 2004 and 2003. 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 33 below.

# Notes to the financial statements

for the year ended 31 March 2004

## 26. Financial instruments continued

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | **Book value** | **Fair value** | Book value | Fair value |
| | **£'000** | **£'000** | £'000 | £'000 |
| Bank loans and overdrafts | **(197,444)** | **(198,610)** | (235,534) | (238,893) |
| Other borrowings | **(204,727)** | **(247,636)** | (209,174) | (287,691) |
| Short term finance leases | **-** | **-** | (229) | (229) |
| Long term finance leases | **(21,264)** | **(21,303)** | (23,380) | (23,551) |
| Other financial liabilities | **-** | **-** | (14) | (14) |
| | **(423,435)** | **(467,549)** | (468,331) | (550,378) |
| Cash at bank and in hand | **35,409** | **35,409** | 15,302 | 15,302 |
| Cash on short term deposit | **65,000** | **65,000** | 62,996 | 62,996 |
| | **100,409** | **100,409** | 78,298 | 78,298 |
| Net financial liabilities | **(323,026)** | **(367,140)** | (390,033) | (472,080) |

**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 £2.6 million, which would be* charged in full to the profit and loss account in the event of an immediate refinancing of this debt. |
| Other loans | The fair value of the fixed rate term loans have been estimated based upon the discounted cash flows at current market rates as advised by the Public Works Loan Board for equivalent debt. The fair values of the variable rate loans approximate to their book values as interest rates are re-set each year to market rates. |
| Short term finance leases | The fair value of short-term finance leases (that is finance leases that are due to expire in less than one year) approximates to the book values of such instruments due to their short maturity dates. |
| Long term finance leases | The fair values of fixed rate long-term finance leases have been calculated by reference to discounted cash flows at prevailing market rates. |
| Cash and short term deposits | The fair values of these instruments are equal to their book values, as each instrument has a short-term maturity date. |

# Notes to the financial statements

*for the year ended 31 March 2004*

## 27. Provisions for liabilities and charges

| Group | Deferred taxation £'000 | Pension provision £'000 | Total £'000 |
|---|---|---|---|
| *At 1 April 2003 as previously reported* | 2,454 | 5,635 | 8,089 |
| Prior year adjustment | 33,653 | – | 33,653 |
| Restated balances as at 1 April 2003 | 36,107 | 5,635 | 41,742 |
| Utilised in the year | – | (600) | (600) |
| Charged in profit and loss account | 2,649 | 758 | 3,407 |
| **At 31 March 2004** | **38,756** | **5,793** | **44,549** |

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

***Deferred taxation and change in accounting policy***

Provision has been made for deferred taxation in accordance with FRS 19. The previous policy of measuring deferred taxation on a discounted basis has been discontinued and the deferred taxation liability is now shown on an undiscounted basis. Accordingly, the prior year figures have been restated as follows:

| | Profit for the year after dividends £'000 | Net assets £'000 |
|---|---|---|
| As previously reported | 189 | 643,812 |
| Effect of change in the year on prior year result | (1,782) | (33,653) |
| ***As restated*** | **(1,593)** | **610,159** |

The impact of the change in policy is to increase the deferred tax charge in the current year by £2,697,000. In the prior year, the change in accounting policy increased the deferred tax charge by £1,782,000.

| | 2004 Amount provided £'000 | 2004 Amount unprovided £'000 | As restated 2003 Amount provided £'000 | As restated 2003 Amount unprovided £'000 |
|---|---|---|---|---|
| Accelerated capital allowances | **46,368** | **(171)** | 43,152 | 918 |
| Short term timing differences | **(6,606)** | **(225)** | (7,045) | (460) |
| Tax losses available | **(1,006)** | **(970)** | – | (2,988) |
| **Provision for deferred taxation** | **38,756** | **(1,366)** | 36,107 | (2,530) |

If investment properties were sold at their current market value, this would result in a potential deferred taxation liability of £37.4 million (2003: £21.0 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 £105.3 million (2003: £84.3 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.

## 28. 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 2004 and 2003** | **204,280,000** | **204,280** |

# Notes to the financial statements

for the year ended 31 March 2004

## 29. Reserves

| | Revaluation reserve £'000 | Profit and loss account £'000 |
|---|---|---|
| At beginning of year as previously reported | **232,186** | **207,346** |
| Prior year adjustment (Note 27) | **–** | **(33,653)** |
| At beginning of year as restated | **232,186** | **173,693** |
| Revaluation surplus on revaluation of fixed assets | **256,606** | **–** |
| *Transfer from revaluation reserve to profit and loss account* | ***(13,153)*** | ***13,153*** |
| Profit for the year | **–** | **18,983** |
| **At 31 March 2004** | **475,639** | **205,829** |

The transfer from the 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 historical cost.

| | Profit and loss account £'000 |
|---|---|
| **Company** | |
| At 31 March 2003 | 1,754 |
| Profit for the year | 24,285 |
| **At 31 March 2004** | **26,039** |

## 30. Reconciliation of movements in equity shareholders' funds

| | 2004 £'000 |
|---|---|
| **Company** | |
| Loss for the financial year | (13,752) |
| Dividends receivable from subsidiary undertakings | 54,537 |
| External dividends payable | (16,500) |
| **Net decrease in equity shareholders' funds** | **24,285** |
| Opening equity shareholders' funds | 206,034 |
| **Closing equity shareholders' funds** | **230,319** |

## 31. Capital commitments

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Capital expenditure that has been contracted for but has not been provided for in the financial statements | **6,050** | 21,736 |

## 32. Grants

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| **Group** | | |
| During the year to 31 March 2004 the Group made claims for and received government grants against approved capital expenditure amounting to: | **2,227** | 4,569 |

# Notes to the financial statements

for the year ended 31 March 2004

## 33. 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 2004. 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 £202,368,000 (2003: £209,124,000). 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.

Claims have been lodged against the Group under Part 1 of the Land Compensation Act (1973). It is the directors' opinion that no material loss will arise as a result of these claims.

## 34. Other financial commitments

At 31 March 2004, the Group had annual commitments under non-cancellable operating leases as follows:

| | **2004** | | 2003 | |
|---|---|---|---|---|
| | **Land** | **Other** | Land | Other |
| | **£'000** | **£'000** | £'000 | £'000 |
| **Group** | | | | |
| Expiring within one year | **–** | **42** | 4 | 47 |
| Expiring between two and five years inclusive | **–** | **94** | 20 | 101 |
| Expiring in over five years | **9,091** | **–** | 10,314 | 60 |
| | **9,091** | **136** | 10,338 | 208 |

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

## 35. 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 2004 amounted to £6.3 million (2003: £6.1 million), which represented an average contribution rate of 10% of the total staff costs (2003: 10%).

**The Greater Manchester Pension Fund**

The 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.

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%.

# Notes to the financial statements

for the year ended 31 March 2004

## 35. Retirement benefits continued

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.

**Unfunded pension liabilities**

A provision of £4,884,000 (2003: £4,680,000) 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 fund was valued using the projected unit method.

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 £909,000 (2003: £955,000) has been established in respect of unfunded pension benefits for certain categories of employees at Nottingham 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.

**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** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | 2002 | **2004** | 2003 | 2002 | **2004** | 2003 | 2002 | **2004** | 2003 | 2002 |
| Rate of increase in salaries | **4.40%** | 4.00% | 4.50% | **4.40%** | 4.00% | 4.50% | **4.40%** | 4.40% | 4.50% | **4.00%** | 3.80% | 4.50% |
| Rate of increase of pensions in payment *(Note 1)* | **2.90%** | 2.50% | 3.00% | **2.90%** | 2.50% | 3.00% | **2.90%** | 2.50% | 3.00% | **3.00%** | 2.50% | 3.00% |
| Discount rate | **5.50%** | 5.40% | 6.10% | **5.50%** | 5.40% | 6.10% | **5.50%** | 5.40% | 6.10% | **5.75%** | 5.50% | 6.10% |
| Inflation assumption | **2.90%** | 2.50% | 3.00% | **2.90%** | 2.50% | 3.00% | **2.90%** | 2.50% | 3.00% | **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 2004:

| | **Rate of return** | **Value** | Rate of return | Value | Rate of return | Value |
|---|---|---|---|---|---|---|
| | **2004** | **2004** | 2003 | 2003 | 2002 | 2002 |
| | **%** | **£'000** | % | £'000 | % | £'000 |
| Equities and property | **7.55%** | **165,721** | 7.71% | 128,082 | 8.25% | 141,300 |
| Bonds | **5.10%** | **34,220** | 4.80% | 30,355 | 5.90% | 34,100 |
| Other | **3.98%** | **13,062** | 4.05% | 12,075 | 4.00% | 18,800 |
| | | **213,003** | | 170,512 | | 194,200 |

# Notes to the financial statements

for the year ended 31 March 2004

## 35. Retirement benefits continued

The following amounts at 31 March 2004 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*** | | | | | |
| **2004** | **192,600** | **(246,100)** | **(53,500)** | **16,050** | **(37,450)** |
| 2003 | 155,400 | (218,000) | (62,600) | 18,780 | (43,820) |
| 2002 | 175,200 | (189,800) | (14,600) | 4,380 | (10,220) |
| **EMIA** | | | | | |
| **2004** | **15,051** | **(27,032)** | **(11,981)** | **3,594** | **(8,387)** |
| 2003 | 11,124 | (22,488) | (11,364) | 3,409 | (7,955) |
| 2002 | 14,100 | (16,800) | (2,700) | 810 | (1,890) |
| **East Ridings*** | | | | | |
| **2004** | **3,585** | **(6,436)** | **(2,851)** | **855** | **(1,996)** |
| 2003 | 2,726 | (5,525) | (2,799) | 840 | (1,959) |
| 2002 | 3,300 | (4,900) | (1,600) | 480 | (1,120) |
| **Airport Ventures** | | | | | |
| **2004** | **1,767** | **(1,977)** | **(210)** | **63** | **(147)** |
| 2003 | 1,262 | (1,869) | (607) | 182 | (425) |
| 2002 | 1,600 | (2,300) | (700) | 210 | (490) |
| **Total** | | | | | |
| **2004** | **213,003** | **(281,545)** | **(68,542)** | **20,562** | **(47,980)** |
| 2003 | 170,512 | (247,882) | (77,370) | 23,211 | (54,159) |
| 2002 | 194,200 | (213,800) | (19,600) | 5,880 | (13,720) |

*The figures as shown represent the portion of the schemes which are attributable to the Group.

If FRS 17 had been adopted in these financial statements the Group's net assets and profit and loss reserve at 31 March 2004 would have been as follows:

| | 2004 £'000 | As restated 2003 £'000 |
|---|---|---|
| Net assets excluding pension liabilities | **885,748** | 610,159 |
| Net pension liability | **(47,980)** | (54,159) |
| **Net assets including pension liabilities** | **837,768** | 556,000 |

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Profit and loss reserve excluding pension liabilities | **205,829** | 173,693 |
| Net pension liability | **(47,980)** | (54,159) |
| **Profit and loss reserve including pension liabilities** | **157,849** | 119,534 |

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.

# Notes to the financial statements

for the year ended 31 March 2004

## 35. Retirement benefits continued

The following amounts would have been recognised in the performance statements in the year to 31 March 2004 under the requirements of FRS 17:

**Analysis of the amount charged to operating profit**

| | EMIA | | East Riding | | GMPF | | Ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| *Current Service Cost of* | | | | | | | | | | |
| Defined Benefit Schemes | **1,061** | 912 | **247** | 214 | **5,100** | 5,600 | **83** | 54 | **6,491** | 6,780 |
| Past service cost | **–** | – | **32** | – | **1,700** | 4,300 | **–** | – | **1,732** | 4,300 |
| **Total operating charge** | **1,061** | 912 | **279** | 214 | **6,800** | 9,900 | **83** | 54 | **8,223** | 11,080 |

**Analysis of the amount (charged)/credited to other finance income**

| | EMIA | | East Riding | | GMPF | | Ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| Expected return on pension scheme assets | **801** | 1,088 | **196** | 221 | **10,700** | 6,600 | **93** | 124 | **11,790** | 8,033 |
| Interest on pension scheme assets | **(1,214)** | (1,024) | **(305)** | 290 | **(12,200)** | (5,900) | **(101)** | (121) | **(13,820)** | (7,335) |
| **Net return** | **(413)** | 64 | **(109)** | (69) | **(1,500)** | 700 | **(8)** | 3 | **(2,030)** | 698 |

**Movement in surplus/(deficit) during year**

| | EMIA | | East Riding | | GMPF | | Ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| Surplus / (Deficit) in scheme at beginning of year | **(11,364)** | (2,700) | **(2,799)** | (1,600) | **(62,600)** | (14,600) | **(607)** | (700) | **(77,370)** | (19,600) |
| Movement in year: | | | | | | | | | | |
| Current service cost | **(1,061)** | (912) | **(247)** | (214) | **(5,100)** | (5,600) | **(83)** | (54) | **(6,491)** | (6,780) |
| Past service cost | **–** | – | **(32)** | – | **(1,700)** | (4,300) | **–** | – | **(1,732)** | (4,300) |
| Contributions | **1,255** | 897 | **222** | 185 | **4,100** | 9,800 | **244** | 276 | **5,821** | 11,158 |
| Other finance income/(expense) | **(413)** | 64 | **(109)** | (69) | **(1,500)** | 700 | **(8)** | 3 | **(2,030)** | 698 |
| *Actuarial gain/(loss) in STRGL* | **(398)** | (8,713) | **114** | (1,101) | **13,300** | (48,600) | **244** | (132) | **13,260** | (58,546) |
| **Surplus / (Deficit) in Scheme at end of the year** | **(11,981)** | (11,364) | **(2,851)** | (2,799) | **(53,500)** | (62,600) | **(210)** | (607) | **(68,542)** | (77,370) |

# Notes to the financial statements

for the year ended 31 March 2004

## 35. Retirement benefits continued

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

| | EMIA | | East Riding | | GMPF | | Ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| Actual return less expected return on pension scheme assets | **1,900** | (4,456) | **497** | (940) | **27,600** | (39,900) | **213** | (285) | **30,210** | (45,581) |
| Experience gains/(losses) arising on scheme liabilities | **(376)** | (2,654) | **18** | 24 | **(200)** | (1,900) | **98** | 180 | **(460)** | (4,350) |
| Changes in assumptions underlying the present value of the scheme | **(1,922)** | (1,603) | **(401)** | (185) | **(14,100)** | (6,800) | **(67)** | (27) | **(16,490)** | (8,615) |
| **Actuarial gain / (loss) recognised in STRGL** | **(398)** | (8,713) | **114** | (1,101) | **13,300** | (48,600) | **244** | (132) | **13,260** | (58,546) |

**History of experience gains and losses**

| | EMIA | | East Riding | | GMPF | | Ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| Difference between actual and expected returns on assets amount (£'000) | **1,900** | (4,456) | **497** | (940) | **27,600** | (39,900) | **213** | (285) | **30,210** | (45,581) |
| % of scheme assets | **13%** | 40% | **14%** | -34% | **14%** | -26% | **12%** | -23% | **14%** | -27% |
| Experience gains and losses on liabilities amount (£'000) | **(376)** | (2,654) | **18** | 24 | **(200)** | (1,900) | **98** | 180 | **(460)** | (4,350) |
| % of scheme liabilities | **-1%** | -12% | **0%** | 0% | **0%** | -1% | **5%** | -10% | **0%** | -2% |
| Total amount recognised in STRGL (£'000) | **(398)** | (8,713) | **114** | (1,101) | **13,300** | (48,600) | **244** | (132) | **13,260** | (58,546) |
| % of scheme liabilities | **-1%** | -39% | **2%** | -20% | **5%** | -22% | **12%** | -7% | **5%** | -23% |

# Notes to the financial statements

for the year ended 31 March 2004

## 36. Related party transactions

**Transactions involving The Council of the City of Manchester**

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

As at the balance sheet date the amount of loans outstanding owed to MCC was £99,843,000 (2003: £101,856,000). The Manchester Airport Group PLC made loan repayments of £1,827,000 to MCC during the year and paid interest of £10,689,000.

Included in external charges are charges for rent and rates to MCC amounting to £16 million (2003: £22 million).

**Contracts with The Council of the City of Manchester**

During the year 1 April 2003 to 31 March 2004, the Group entered into a number of contractual arrangements with MCC. The types of work undertaken by MCC, 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 £178,000 (2003: £156,000). 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 £18,000 (2003: £28,000).

**Other related party transactions**

Seedcorn Investment Management Limited is a Company owned by Paul Barraclough, a director of Worknorth II Limited and Worknorth Limited. During the year Seedcorn Investment Management Limited charged Worknorth II Limited £85,330 (2003: £57,671) for services provided on normal commercial terms. As at 31 March 2004, the balance owing to Seedcorn Investments amounted to £7,351 (2003: £7,209).