Annual Report and Accounts

2006-07

MAG

The Manchester Airport Group PLC

The Manchester Airport Group ('MAG' or 'the Group') is the second largest airport group in the UK. The Group comprises Manchester – the largest UK airport outside London, East Midlands – the fastest growing UK airport in 2006 and a major regional base for low cost, charter and cargo airlines, together with developing regional airports at Humberside and Bournemouth.

The Group also runs airport related businesses engaged in the management and development of property, baggage handling, car parking and retail activities.

MAG is owned by the ten Greater Manchester Councils comprising the Council of the City of Manchester (55%) and the nine neighbouring local authorities: Bolton, Bury, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan (5% each).

Further information on MAG operating divisions, policies and travel related information can be found on the following websites:

manchester airport

www.manchesterairport.co.uk

east midlands airport
Nottingham • Leicester • Derby

www.eastmidlandsairport.com

bournemouth airport

www.bournemouthairport.com

humberside airport

www.humbersideairport.com

MAG

The Manchester Airport Group PLC
Registered office: Town Hall, Manchester M20 2LA, United Kingdom
Registered Number 4330721

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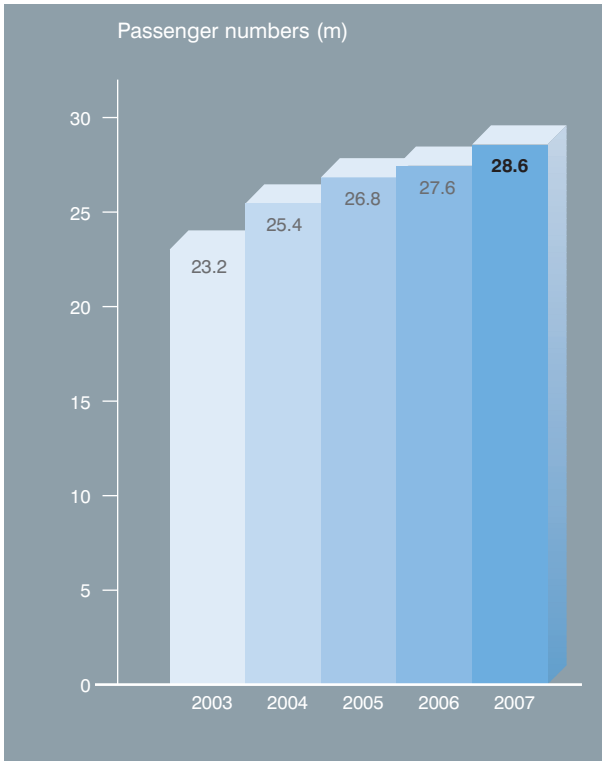
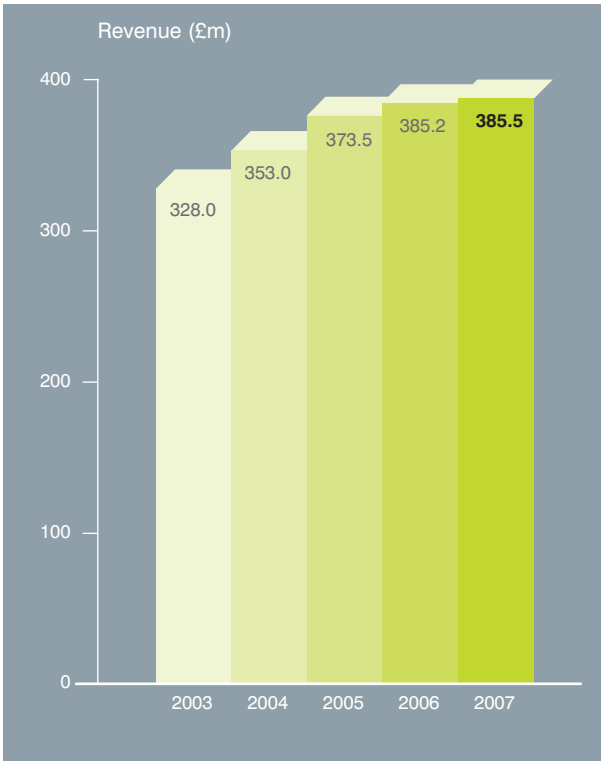
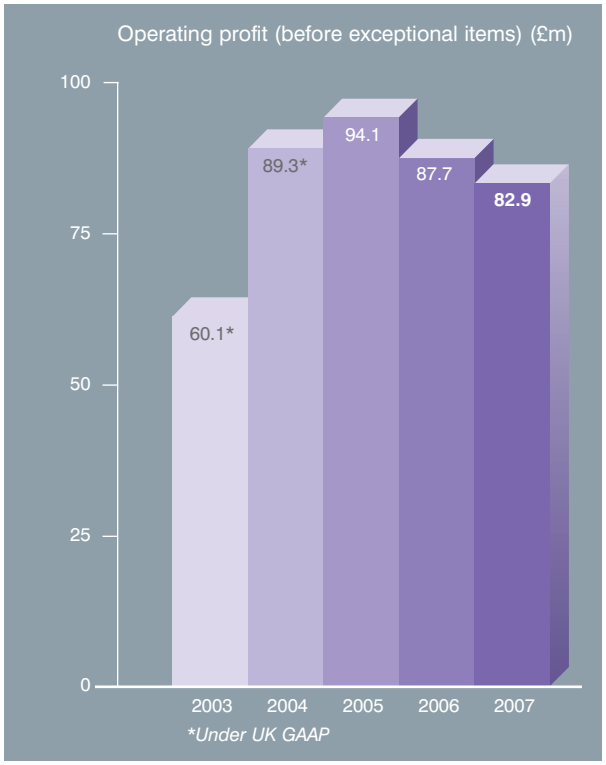
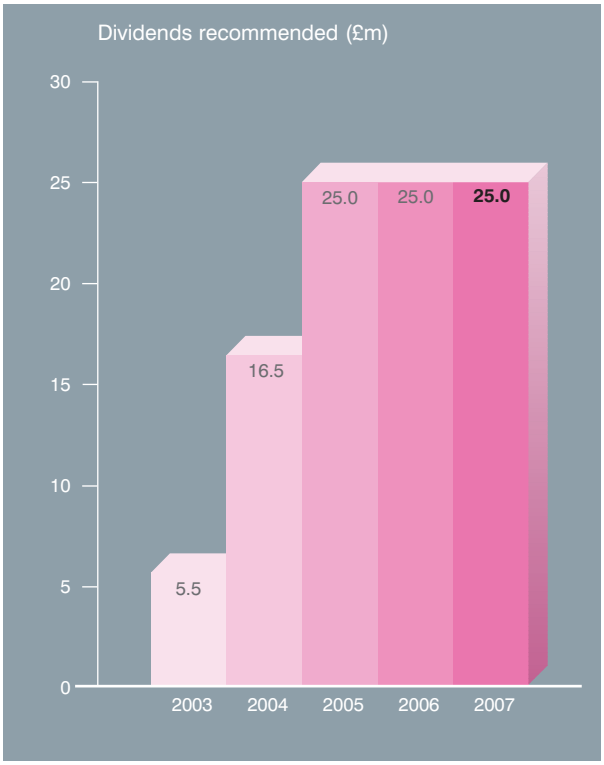
Financial highlights









Chairman's statement

MAG has faced another extremely challenging year. The business has been impacted by further aviation price deflation, increasing utility costs and the change of security regime post 10 August 2006. Despite this, the Group has continued to grow and has won all the major industry awards over the last 12 months. MAG also received a commendation from the Secretary of State for Transport for its handling of the post 10 August security events. This reflects the recognition from the aviation industry as a whole and Government of the significant strides being made by MAG in responding to a rapidly changing external environment.

Although all four airports achieved passenger growth in the last twelve months, revenue has remained relatively flat and operating profit before restructuring costs and impairment has declined by 5% to £83m. Despite the decline in profitability, shareholder value has continued to be driven forward through strong cash management and shareholder funds have grown to £861m from £793m. Debt has been reduced by a further £13m during the period, even after the £18m lump sum payment to reduce the pension fund shortfall and the maintenance of the dividend to shareholders at £25m. We have also benefited from further substantial gains in the investment property portfolio, with property values increasing on a like for like basis by just over 10%.

Given all of the recent negative impacts on the perception around air travel, MAG is significantly stepping up its efforts to improve its customer service proposition. The business is striving to become more efficient, improving the ease of the travel experience and at the same time living up to our responsibilities as a community member. Management effort is now very much targeted towards an overall goal of becoming 'simply better' than all other airports by facilitating customer journeys that are as easy and stress free as possible.

The green agenda is also very much a key issue for MAG. We operate in a growth sector which is contributing to the increase of CO_2 emissions. Counter balancing this issue is the fact that growing successful regional airports provide hubs for economic growth. In order to ensure that we strike the right balance in this area, we have an environmental strategy in place designed to mitigate the negative impacts of our businesses on the communities surrounding MAG airports and the wider environment, ensuring that we seek to continue to grow in a sustainable way.

Looking ahead, the Group Board feels confident that efforts to improve efficiency and customer service position the Group well to grow and reverse the recent profit trend. As a result the Board is proposing to maintain the dividend at £25m.

Finally and perhaps most importantly I would again like to take this opportunity to recognise the immense contribution of all our Group colleagues. Without their support, commitment and efforts during the days surrounding, and since, 10 August we could not have kept disruption to customers to a minimum. In addition it will be through the efforts of all our colleagues and service partners moving forward, focussing on ever improving customer service, that we will work together towards a profitable future in a very competitive environment.

Alan Jones
Chairman
14 June 2007

Brand Goals and Values

MAG's brand promise is to make the customer journey easier. Together with our overall corporate goal and six core values, it lays the foundations on which the Group operates.

Our Brand Promise

Making the customer journey easy

We strive to make your journey with us as seamless, relaxed and worry-free as possible.

Our Goal

To become simply better than all other airports by making the customer journey a uniquely positive experience.

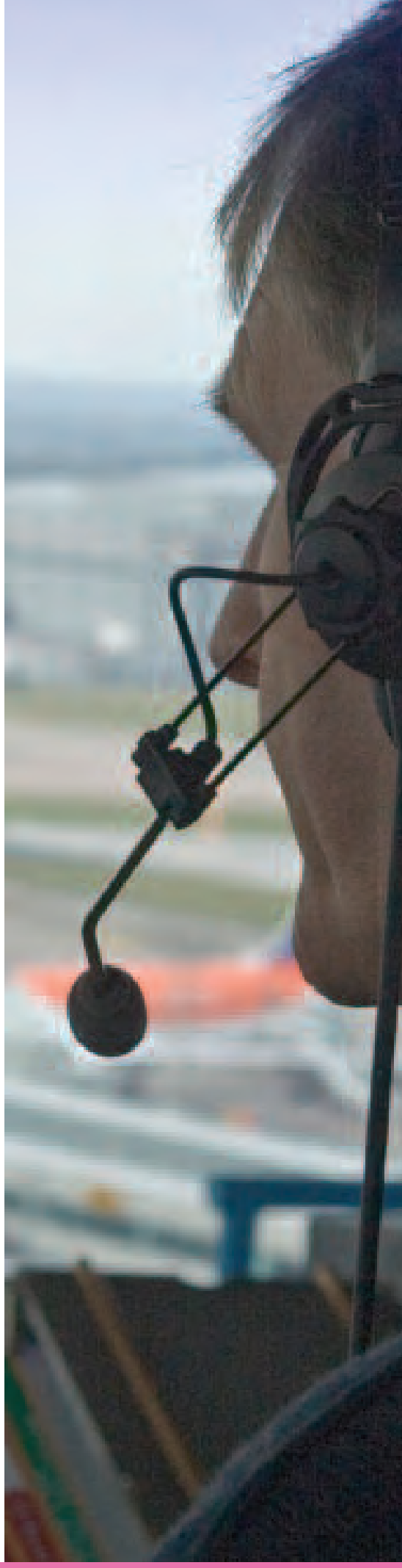
Our goal is to have engaged and helpful colleagues who will deliver ever improving customer service. We will be recognised as providing an environment which is refreshing, shopping that is inspiring and airports that are always clean, working, simple and safe.

The statement captures the Group's focus and aims to engender a spirit of continuous improvement across all businesses.

Our Corporate Values

The core principles that define the way the Group works

- Colleagues – Help every colleague to make a difference
- Customer – Treat every customer as you would like to be treated
- Costs – Spending money on things that really matter
- Innovation – Strive to be better every day and make it happen
- Integrity – Be open, honest and keep your promises
- Social Commitment – Be a responsible neighbour and invest in our community



Operating Review

Summary

Passenger traffic for the Group increased 3.7% against the previous year. This measure continues to be the key driver for the business. Growth was achieved across all four Group Airports. The most significant increase was at East Midlands which accounted for just under 80% of the Group's increase in passenger numbers.

Revenue has remained flat as a result of reduced charges to airlines offsetting growth in retail, car parking and property income.

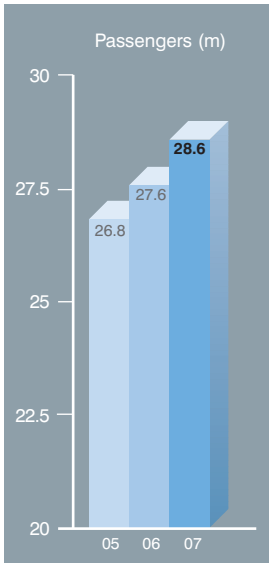
Operating costs have increased 1.7% on the prior year. These were impacted by the new security regime in operation post 10 August 2006 and significantly increased utilities prices. Despite this costs per passenger have still fallen as a result of efficiency programmes implemented in the year. However the net result of the above is an operating profit before restructuring costs and impairment decline in the year of 5.5% to £82.9m (2006: £87.7m).

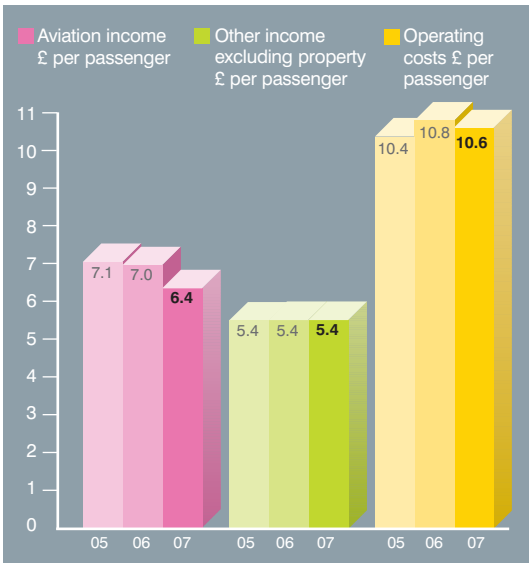
Capital expenditure has been tightly managed in the period to ensure that, despite declining profitability, operating cash flows remained strong. Net debt reduced in the period by £13m.

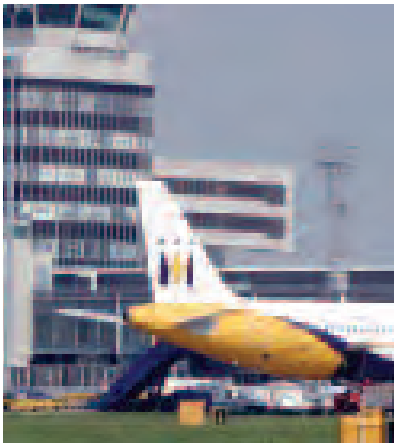
Future charges to airlines are expected to continue to remain under pressure and in turn there will be a continuing need to drive operating efficiencies throughout the business.

At the same time, an increased level of capital expenditure is anticipated over the coming years. To ensure the passenger experience is continually enhanced and improved, MAG will be investing in improved terminal, airfield, car parking and retail facilities across the Group. There will also be significant expansion of the non-core property portfolio.

Passenger growth, income per passenger and operating costs per passenger are the key headline performance metrics for the Group. Year on year progress in these areas is as follows:







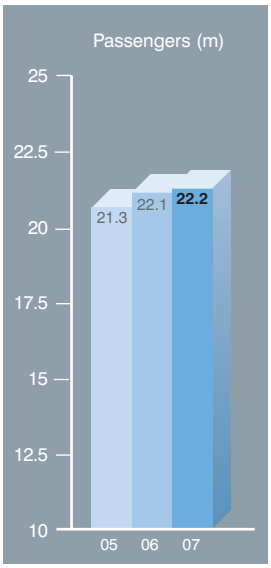
Manchester Airport

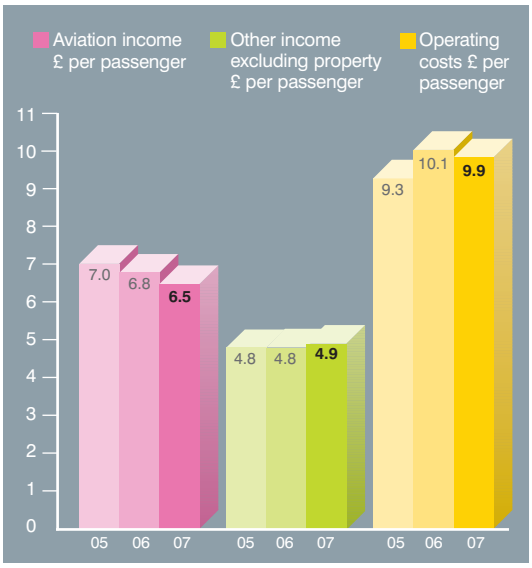
Manchester Airport facilitated 22.2m passenger journeys in the year to March 2007. The Airport offers more destinations worldwide than any other UK airport. New routes added during the year include Colombo, Dakar, Cape Town and Tripoli. Jeddah, Lisbon and Rotterdam have also been added for the summer season taking the total destinations now served to 225.

MAG won nine awards during the 2006/07 financial year, seven of which were awarded to Manchester Airport. These included the Airport of the Year, the Top UK Regional Airport and the Global IATA Eagle Awards.

Pressures were experienced in the domestic market, impacted by increased competition from the rail industry post 10 August. Consolidation within the charter market also increased in the second half of the year, although the long haul charter sector has continued to grow steadily.

Going forward Manchester Airport is looking to consolidate and strengthen its charter and short haul scheduled services and further develop its offerings in the long haul and low cost markets.





Review of Operations

East Midlands Airport

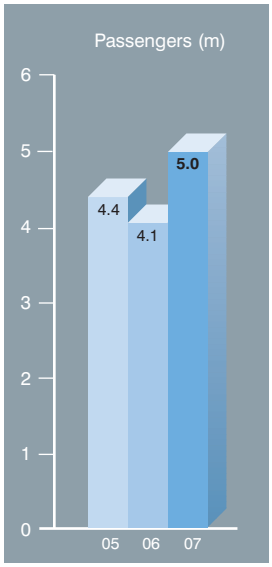
East Midlands Airport ('EMA') grew passenger numbers in the period by almost 20% to 5.0m. Building on the successes of the previous year, the Airport won the Best UK Airport and Best Regional Airport awards.

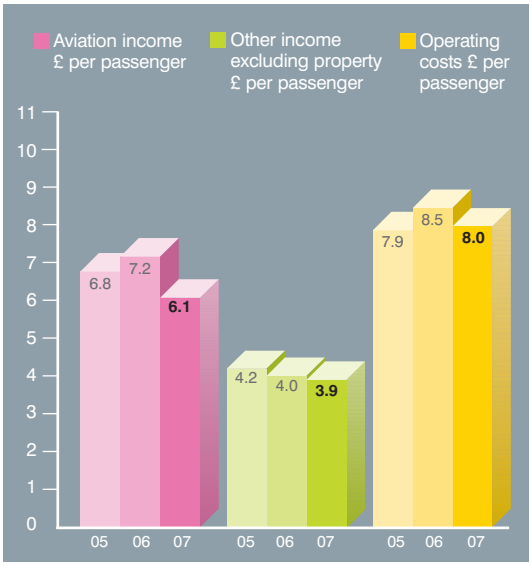
Passenger growth was achieved primarily from low cost scheduled airlines and in particular Ryanair who introduced a total of 22 new routes. bmibaby also continued to expand and easyJet have consolidated their base at the Airport.

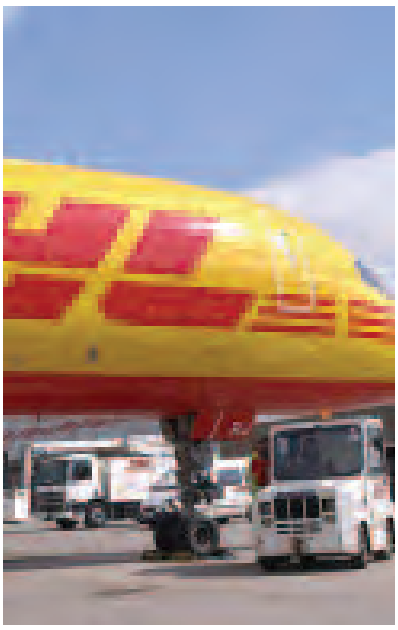
Bucking the market trend, EMA also grew charter services by almost 3% including a new service to Kenya. In the coming year there will be further expansion with new routes to Cuba, Goa and Jamaica already announced.

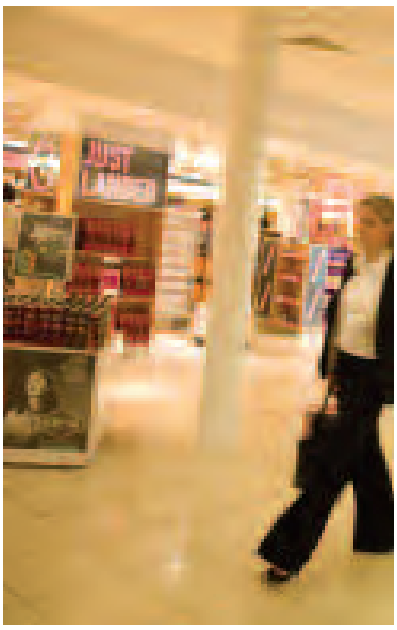
There has been significant investment during the year to facilitate a smoother passenger journey through an improved security area. This is in addition to upgraded retail and food and beverage facilities and expanded pier and apron areas. A transport interchange has also been built to facilitate easy access by coach to the Airport terminal. In order to ensure that the Airport continues to grow, MAG is committed to ongoing investment.

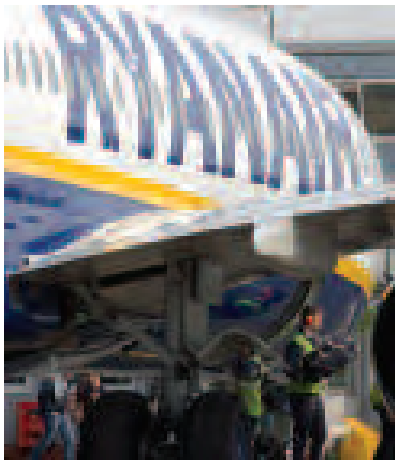
EMA continues to be the largest pure cargo (freight and mail) operation in the UK carrying over 300,000 tonnes, 3% higher than the previous year. Further growth is again anticipated in this sector, with DHL, UPS, TNT and Royal Mail all represented at the Airport.

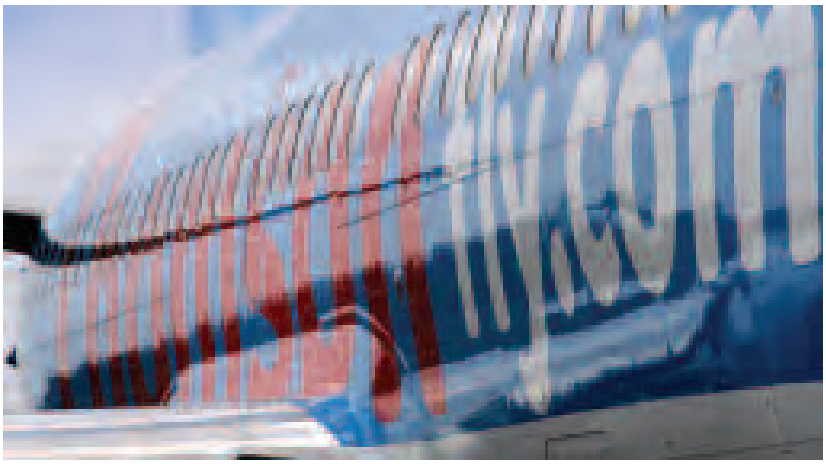










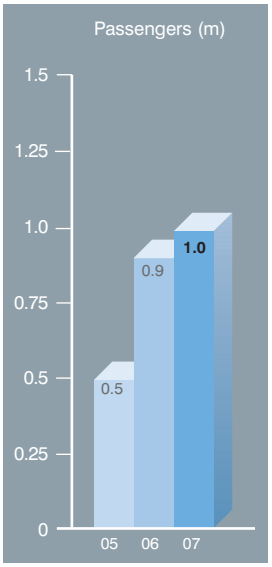


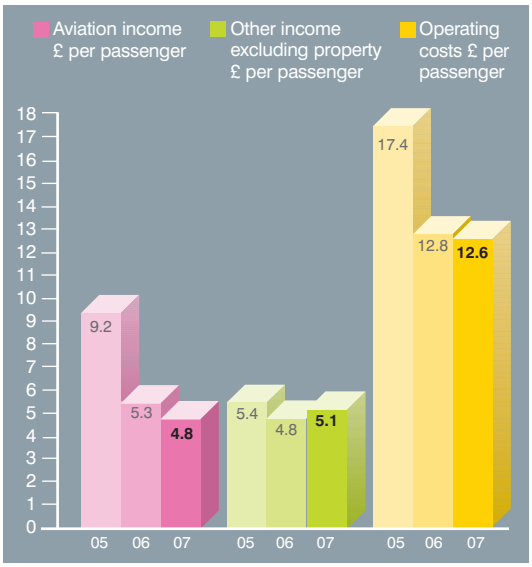
Bournemouth Airport

The low cost sector continued to fuel growth at Bournemouth Airport this year, Ryanair introduced new routes to Pisa, Shannon and Madrid, and easyJet added capacity on its route to Geneva. Thomsonfly and Air Berlin also continued to perform well during the year and Wizzair will introduce a new service to Katowice, Poland in the coming summer season.

On the charter side, Thomas Cook added Bournemouth to its route network flying to Turkey, Mallorca, Crete and Cyprus. In addition The Gambia Experience introduced a ten week programme of flights to Banjul during the winter.

Bournemouth is anticipated to grow strongly in the coming years. To this end the Group has committed to an investment of £32m in an extensive redevelopment programme for the Airport.



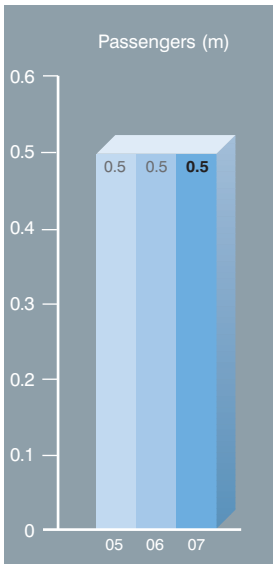


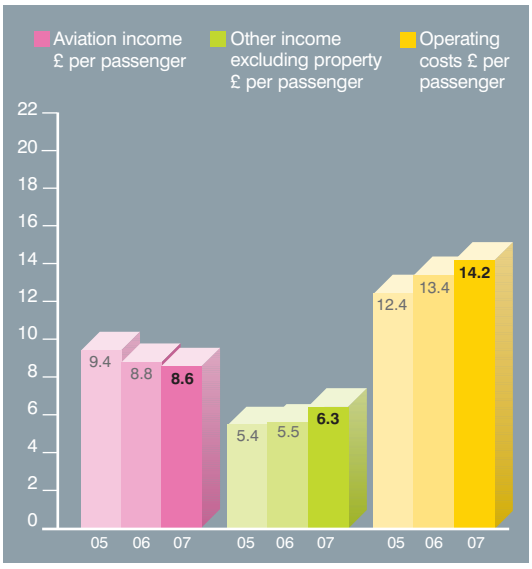
Review of Operations

Humberside Airport

Humberside Airport recorded strong traffic growth in both passengers and freight despite the continued changes in the industry and the impact of increased competition.

Competition is expected to continue to increase in the coming years and in consequence the trading environment will remain difficult. However, there are a number of positives, including Eastern Airways consolidating its base at the Airport and establishing a flight simulator facility for Jetstream training.





Ringway Handling Services Ltd

During the year, Ringway Handling Services Ltd has won new contracts with FlyGlobespan, Cathay Pacific and Flybe. It has also been successful in retaining contracts with Thomas Cook and American Airlines. The business remains firmly focused on cost and has introduced a number of productivity improvements during year ranging from a restructure of the management team to changes in the organisation of activity on the ramp.

Property

Property rental income increased by 6.9% during 2006/7 following high occupancy of properties and the renewal of leases by key airline customers. New developments were delivered on budget and on time at EMA (Royal Mail) and Manchester (Travelodge Hotel). Ongoing development activity includes further hotels over the near term and a significant number of other opportunities across each of the Group's sites over the medium term.

Outlook

The Group continues to make progress despite the highly competitive environment and the even tighter security regime within which airports operate for the benefit of passengers. Looking ahead the Group's focus on customer service through its 'Customer First' programme will ensure continuous improvement in the customer experience at all MAG's Airports.


Virgin
virgin atlant
Thomson
KLM
RH
F-GRHR
AIR FRA

Financial Review

Summary

Group passenger traffic increased by 3.7% during 2006/7, with passenger numbers for the group reaching 28.6m (2006: 27.6m). Revenue for the year increased by 0.1% to £385.5m (2006: £385.2m) which is lower than the increase in passenger traffic due to pressures on aviation yields. Costs rose by 1.7% resulting in an operating profit before restructuring costs and impairment of £82.9m (2006: £87.7m), a 5.5% decline on 2006. Nevertheless, profit after tax (and EPS) improved by 11.5% as a result of the successful outcome of negotiation of prior year tax liabilities. The proposed ordinary dividend to Shareholders has been held at £25.0m (2006: £25.0m).

The revaluation of investment properties carried out as at 31 March 2007 has resulted in a value of £302.1m, being an increase in asset values of 12.4%, adding £33.4m to profit before tax. Excluding new developments in the period the underlying increase in property values was 10.1%.

Capital expenditure was managed tightly throughout the period, reflecting the challenging trading conditions. This area has been the most significant factor behind the strong cash flow performance in the period. After one off pension contributions of £17.8m and dividends of £25m, the Group still reduced debt by £13.3m and improved cash flows (pre financing activities) by £36.2m.

Summary of the year's results (£m)

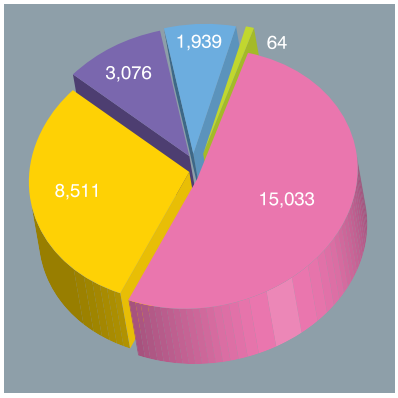
	2007	2006	Change%
Revenue	**385.5**	385.2	0.1%
Operating profit before exceptional items	**82.9**	87.7	(5.5%)
Profit after taxation	**67.7**	60.7	11.5%
Dividends recommended	**25.0**	25.0	
Net cash from operating activities	**103.3**	95.3	
(Decrease) / Increase in net debt	**(13.3)**	23.8	
Net debt	**282.6**	295.9	
Equity shareholder's funds	**861.1**	793.1	

Financial Review

Passenger traffic

An increase in passenger numbers was experienced by all Group Airports, with EMA and Bournemouth seeing significant growth of 19.4% and 7.3% respectively. Humberside has had a mixed year with strong first half growth offset by the announcement of the loss of routes in the second half. Manchester has been relatively flat with low cost growth offset by the decline in the domestic London and short haul charter routes.

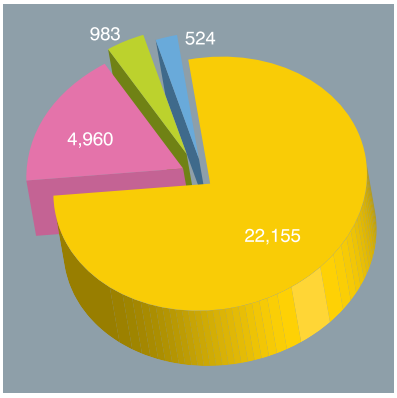
Passengers by airline type



Total 28,622 (000's)

- Scheduled short haul
- Charter short haul
- Scheduled long haul
- Charter long haul
- Private and miscellaneous

Passengers by airport



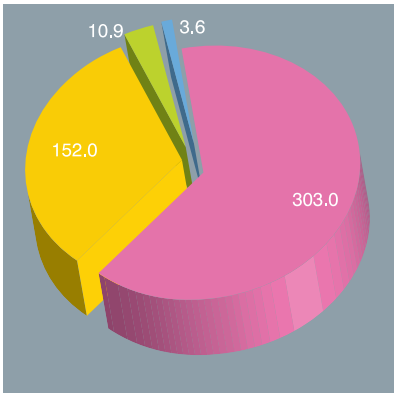
Total 28,622 (000's)

- Manchester
- East Midlands
- Bournemouth
- Humberside

Cargo

Cargo volumes increased by 2.3% to 469.5k tonnes (2006: 459.2k tonnes) during the year. EMA, the UK's largest freight airport, was the key driver behind this due to strong growth from its various based cargo operators UPS, DHL and the new Royal Mail operation.

Cargo



2007 – Tonnes (000's)

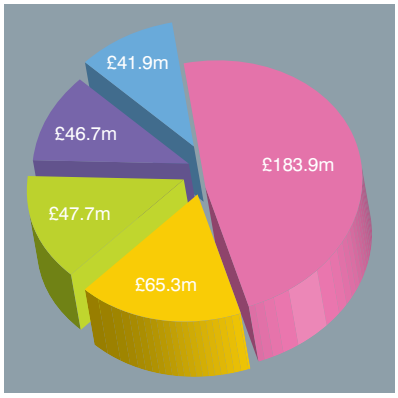
- East Midlands
- Manchester
- Bournemouth
- Humberside

Trading performance

Group revenue remained flat on 2006, with income generated by increased passenger growth being offset by declining aviation yields. Retail income increased by 6% to £65.3m despite being significantly impacted by the security alert of 10 August 2006. Retail yields increased by 6% reflecting the development of strategies to provide customers with a more attractive retail offer. The increase in car parking income was in line with passenger growth. Significant growth in web-based sales has been offset by reduced income from short stay parking linked to reductions in domestic business travel.

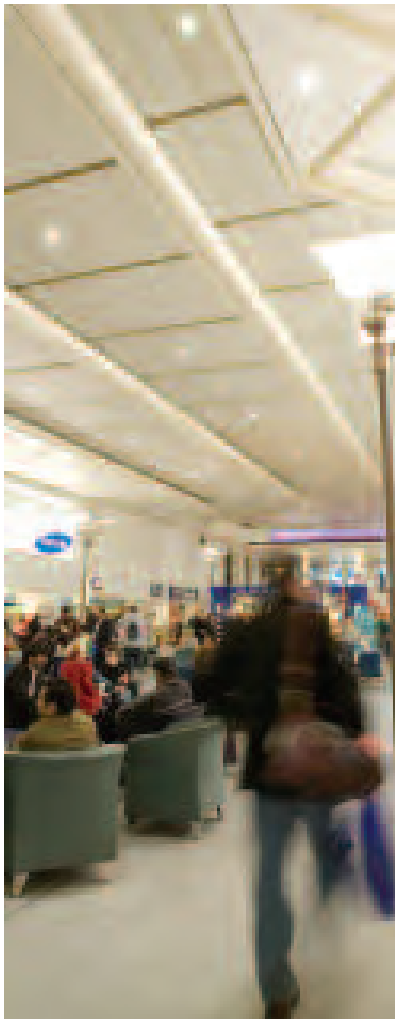
The downturn in Group trading performance has been most marked at Manchester where charter and London routes have suffered post 10 August 2006. EMA and Bournemouth have both converted strong passenger growth into improved financial performance (pre-restructuring costs). Humberside's performance reflects the increasingly competitive environment in which it is operating.

Analysis of Group Revenue



Total income £385.5m

- Aviation income
- Retail concessions
- Car parking income
- Property and related income
- Other income



Summary of trading performance by division

	2007	2006	Change%
Revenue (£m)			
Manchester Airport	**277.6**	289.9	(4.2%)
Manchester Airport Developments	**23.7**	33.5	(29.3%)
East Midlands Airport	**53.3**	49.5	7.7%
Bournemouth Airport	**11.3**	10.7	5.6%
Humberside Airport	**9.3**	8.5	9.4%
Other businesses and consolidation [1]	**10.3**	(6.9)	249.3%
	385.5	385.2	0.1%
EBITDA [2] (£m)			
Manchester Airport	**110.9**	123.8	(10.4%)
Manchester Airport Developments	**15.1**	13.5	11.9%
East Midlands Airport	**19.6**	19.6	–
Bournemouth Airport	**1.3**	1.1	18.2%
Humberside Airport	**1.3**	1.4	(7.1%)
Other businesses and consolidation	**(0.7)**	(4.2)	83.3%
	147.5	155.2	(5.0%)
Profit before restructuring costs and impairment (£m)			
Manchester Airport	**55.4**	64.7	(14.4%)
Manchester Airport Developments	**14.6**	12.9	13.2%
East Midlands Airport	**12.2**	12.4	(1.6%)
Bournemouth Airport	**0.7**	0.6	16.7%
Humberside Airport	**0.6**	0.7	(14.3%)
Other businesses and consolidation	**(0.6)**	(3.6)	83.3%
	82.9	87.7	(5.5%)

1 The consolidation adjustment has changed significantly compared to 2006 due to alterations in the basis of intra-divisional charging.
2 The EBITDA is defined as earnings before interest, taxation, depreciation, restructuring costs and impairment.

Financial Review

Interest, tax and dividends

Net Group interest payable reduced by £0.4m to £26.0m. The reduction reflects the part year impact of refinancing of the Group's bank facilities, replacing legacy fixed cost debt with lower cost variable rate borrowing and improved Group cash flow performance.

The resolution of historic corporation tax issues through successful negotiation with HM Revenue & Customs, combined with significant work on improved capital allowances claims have resulted in a release of prior year corporation tax provisions of £11.9m. In addition, tax relief was claimed in respect of the lump sum pension contribution of £17.8m, which will result in a cash tax saving of £5.3m. The combination of these items has significantly contributed to profits available for distribution improving from £60.7m to £67.7m.

The recommended dividend for the year is £25.0m (2006: £25.0m), leaving £68.0m of retained profits transferred to reserves.

Group profit and loss account (£m)

	2007	2006
Profit from operations	**75.0**	84.0
Movement in fair values	**31.9**	30.1
Net interest payable	**(26.0)**	(26.4)
Profit before tax	**80.9**	87.7
Taxation	**(13.2)**	(27.0)
Profit after tax	**67.7**	60.7
Dividends recommended	**25.0**	25.0

Cash flow and capital expenditure

The Group generated net cash from operating activities for the year of £103.3m (2006: £95.3m).

The net cash flow position of the Group has been positively impacted by the constrained capital investment throughout the year with net expenditure down to £65.2m from £93.4m in 2005/6. Cash flows were also impacted by the payment of a lump sum pension contribution of £17.8m, made at the beginning of the financial year. This was offset though by improved inflows from working capital of £18.7m.

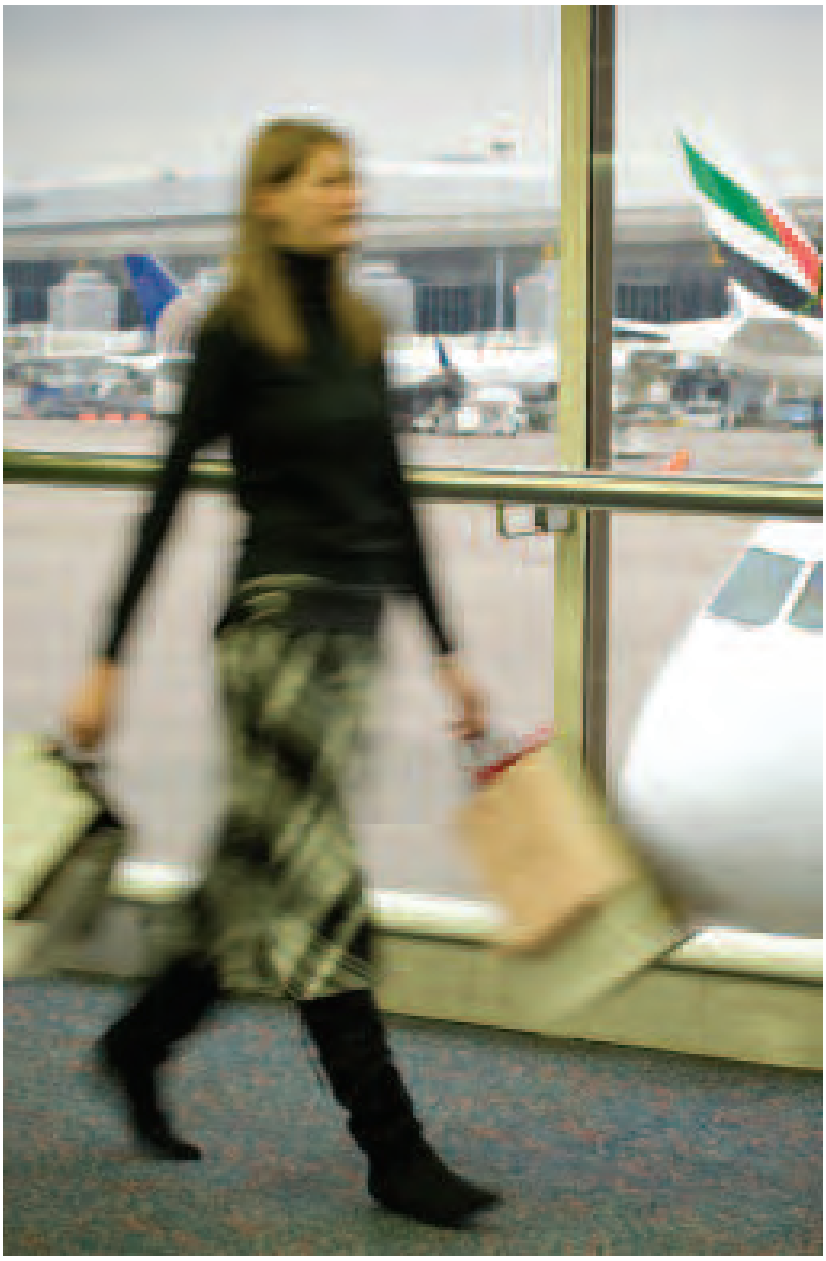
Group cash flow (£m)

	2007	2006
EBITDA (net operating cash flow)	**143.9**	151.3
Working capital changes	**0.9**	(5.0)
Interest, tax and dividends	**(66.3)**	(76.7)
Capital expenditure, net	**(65.2)**	(93.4)
(Increase)/decrease in net debt	**13.3**	(23.8)

Balance sheet

Equity shareholders funds increased by £68.0m to £861.1m (2006: £793.1m), reflecting the constrained capital spend and focus on working capital management. The investment property valuation uplift added £33.4m to reserves.

Movement in shareholders' funds (£m)	
As at 31 March 2006	793.1
Retained profit for the year	68.0
As at 31 March 2007	**861.1**



Financing

As a result of the improvement in cash flow management during the year, net debt decreased by £13.3m to £282.6m.

Secured Public Works Loan Board (PWLB) loans are long term loans due to the Greater Manchester Local Authorities. In weighted average terms, these loans have an average maturity of 9 years and an average fixed interest rate of 10.2%.

The Group refinanced its £325.0m bank facility with a new £300.0m facility during the year. This will result in an annualised saving in interest payment of around £1.0m.

The Group has also maintained a Standard and Poor's 'stable A' credit rating during the year. The rating reflects MAG's strong business profile and its position as the UK's second largest airport operator.

Analysis of net debt (£m)	2007	2006
Secured PWLB loans	**183.3**	189.1
Unsecured bank loans	**100.0**	180.0
Finance leases	**13.4**	15.9
Unamortised issue expenses	**(0.8)**	(0.6)
Total debt	**295.9**	384.4
Cash balances	**13.3**	88.5
Net debt	**282.6**	295.9
Fair value	**327.2**	354.4

Financial Review

Pensions

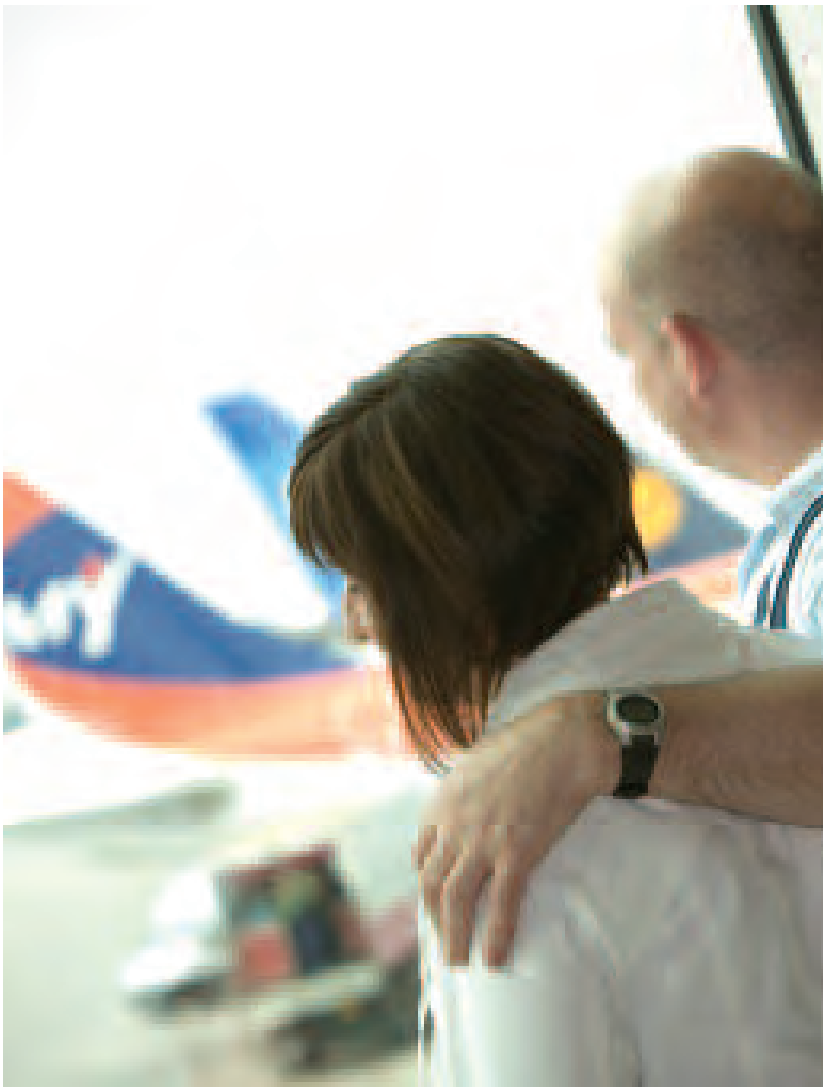
During the year, the aggregate deficit in the Group's four defined benefit schemes decreased from £67.7m to £24.0m, before allowing for any credit for deferred taxation.

The GMPF scheme comprises 85% of the aggregate Group pension scheme liabilities. The scheme's triennial actuarial valuation as at 31 March 2004 resulted in a scheme deficit on an actuarial basis of £18.3m and a funding level of 91%. The actuarial deficit on the GMPF scheme and the other smaller Group schemes has been significantly addressed, by a one-off contribution of £25.0m, £7.2m of which was paid in March 2006 and £17.8m in April 2006. The exercise to revalue the scheme again as at 31 March 2007 is ongoing.

All of the Group's defined benefit pension schemes have been closed to new entrants and have been replaced with a Group-wide defined contribution scheme.

Summary of change in aggregate pension fund deficits (£m)	
Deficit as at 31 March 2006	(67.7)
Current and past service cost	(9.5)
Contributions	23.5
Expected return on pension scheme assets	19.6
Interest on pension scheme liabilities	(17.3)
Actuarial gain	27.4
Deficit as at 31 March 2007	**(24.0)**

Assets and liabilities in pension schemes (£m)	**2007**	2006
Total market value of assets	**321.2**	285.2
Present market value of liabilities	**(345.2)**	(352.9)
	(24.0)	(67.7)



Risk management

The management of risk is embedded in the strategic and operational processes of MAG. Risk is assessed formally at divisional level through Risk Workshops and via the maintenance of Risk Registers. The updating of the Risk Registers is a continuous process involving the identification, evaluation and management of risks by individual managers. 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 Group-wide Steering Group which meets regularly and whose remit is to moderate the process and to ensure completeness of the Risk Registers. Key issues are reported upwards to senior management and ultimately the Audit Committee. The assessment of risk is also integrated with day to day management processes and is included in capital investment and project management procedures.

Risk management *continued*

The key corporate risks and mitigation profiles are detailed below:

Security

Security of customers and staff is ranked as one of the most important operational risks that the Group has to manage. Within the last twelve months, the Group has continued to invest heavily in training security staff to deliver an even higher standard of security service to passengers. There has also been significant investment in security technology linked with an independent quality assurance programme, which employs both an internal and external checking regime. 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

The Health and Safety of customers and staff is also a priority operational risk for the Group to manage. There is a Group-wide structure in place to support management through the provision of staff training, auditing and specialist advice. The assessment of Health & Safety risks is inbuilt into daily management routines and is monitored by a comprehensive structure of Health & Safety committees that are in turn overseen by a corporate Health & Safety Committee with Board level oversight.

Environmental Compliance

Increased environmental restrictions on noise and pollution potentially place limitations on future growth. The risk is addressed by a dedicated team who research and model future trends in air traffic and develop environmental impact assessments. The Group is also actively working with the airlines to research ways to operate in more environmentally efficient ways.

Competition

The development of existing and newly opened competitor airports clearly presents a challenge to the Group. Within a dynamic market, considerable effort is being made to develop and customise the offer at all four sites to preserve customer preference for flying from MAG airports. The focus is on developing the proposition to customers in all aspects of their travelling experience.

Changes in Demand

The reality of the aviation 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 or avian flu. The 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 business interruption.

Capacity Shortfall

Failure to secure the appropriate planning permission would expose the Group to operational capacity constraints. Medium and long term planning is in progress for increasing capacity at Manchester, East Midlands and Bournemouth Airports in line with future projected growth.


SALE

Corporate Responsibility

Introduction

MAG is committed to becoming best in class in Corporate Responsibility 'CR'. With a long history of environmental and social activities, and stretching future targets including a commitment to become carbon neutral by 2015, MAG is already at the forefront of responsible business thinking.

MAG recently completed a two-year project (a Knowledge Transfer Partnership) in conjunction with the Department of Trade and Industry and Manchester Metropolitan University on CR. The project sought to deliver a leading edge, commercially beneficial CR programme for MAG.

It identified that, although MAG has a long history of environmental and social commitments and a wide range of CR activities, these have never been brought together in one coordinated approach.

Benchmarking found that MAG's CR performance compared favourably to that of other organisations. The project found that MAG is ahead of the majority of businesses surveyed in its efforts to embed CR in day to day practice. Its key recommendation was that, for MAG to become (and remain) truly leading edge in the field of CR, a dedicated CR function, led by a specialist manager, should lead the organisation in embedding responsible behaviour across the business.

Work is ongoing as to how best to implement the programme across the Group and each Airport site.

The Environment

Manchester Airport has made excellent progress against the environmental targets set in its Environment Plan, which maps out the agenda for controlling environmental impacts to 2015.

An environmental team works across EMA, Bournemouth and Humberside Airports, in order to implement a comprehensive suite of voluntary environmental mitigation measures.

East Midlands Airport was the first airport in the UK to be certified to Environmental Standard ISO 14001 and it has been successful in retaining this in 2006. Manchester Airport is currently working towards attaining this standard.

Noise and Track keeping

MAG is committed to minimising the noise impact from operations at all of its Airports. At Manchester noise is monitored using a network of 14 noise monitors around the site. During the year a new policy was introduced for controlling night noise. For the first time the operation of the noisiest aircraft at night has been restricted and a cap has been placed on the number of aircraft that can land and depart at night. As an incentive to pilots to fly their aircraft in the quietest possible manner and to encourage airlines to operate quieter aircraft we also impose noise penalties at night that are some of the most stringent in the UK. The Night Noise Policy also saw the introduction of Continuous Descent approaches at night following a successful trial with NATS and EuroControl and a number of partner airlines.

All penalties received are donated to the Manchester Airport Community Trust Fund.

At Manchester 98% of departing aircraft flew within the preferred noise routes. This is a further year on year improvement and exceeds the target of 95% of on track departures. Access to daily track keeping performance is available to pilots via the Extranet. MAG has lobbied for many years for the ability to fine airlines that consistently fly outside the preferred noise routes. The Civil Aviation Act 2006 now gives the Group this ability.

At Bournemouth, East Midlands and Humberside Airports no properties are forecast in current projections to be exposed to more than 57dB(A)LAEQ, which is considered the threshold for excessive noise disturbance.

Climate change

Aviation has brought significant benefits to world trade and development, contributing £25.0 billion to UK GDP with MAG currently responsible for facilitating over £3.0 billion of this total and more than 130,000 jobs.

However, this vital economic and social contribution is not without environmental costs. Aviation's impact on climate change is currently 2% of global emissions and 6% of the UK's carbon emissions.

Clearly, the challenge is how to deliver sustainable growth whilst minimising the impacts.

For many years, concern for the environment has been at the heart of MAG's business including a focus on carbon emissions. Although MAG doesn't operate aircraft, significant progress has already been made in reducing the Group's own carbon emissions.

Indeed, MAG has embarked on an ambitious strategy to make all its airport operations carbon neutral as soon as possible. East Midlands Airport has committed to achieve this by 2012 for its energy use and vehicles across the site.

Creating carbon neutral airports has never been done in the UK before by any airport. MAG recognises that it is a long and complex journey but the Group has already taken some small but significant steps towards the ultimate goal.

Manchester Airport was the first in the UK to carry out a full carbon audit in conjunction with the Carbon Trust and purchases 15% of its electricity from renewable sources. The emissions saved by using this level of renewable electricity equates to a 9,770 tonnes reduction in carbon emissions.

At Bournemouth (as all MAG airports) there is a clear commitment to become carbon neutral for energy use and vehicle fuel. A target to obtain 25% of electricity supply from renewable sources by 2010 has also been set.

In July 2006, a utilities project team was tasked with delivering significant energy and water savings from existing operations and to ensure that new developments create the minimum carbon footprint.

By the end of 20006/07 over £800,000 (8% of the utilities budget) of annualised savings had been realised through conservation efforts delivering a carbon emissions reduction of 3,000 tonnes at Manchester Airport.

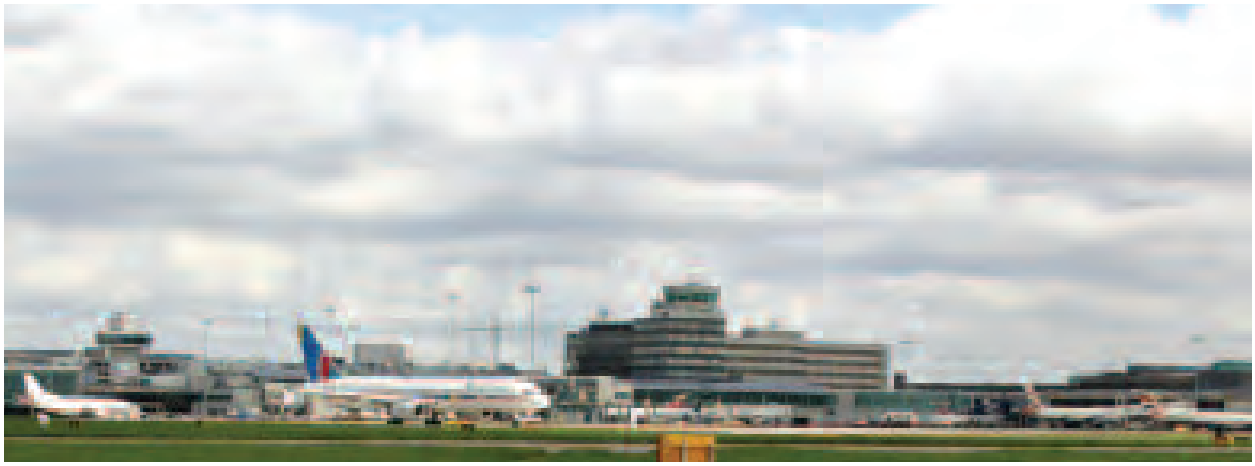
MAG is now much more sophisticated in its attitude to energy consuming systems such as lighting, temperature control and conveyor systems. These systems are now only used when required rather than left on constantly. Improved controls and monitoring devices have also been installed.

Manchester Airport has continued its participation in Phase 1 of the EU Emissions Trading Scheme (EU ETS). In 2006, the Airport emitted approximately 10,000 tonnes of CO_2 below its allocation. The same figure was reported in 2005, showing that energy savings being made are balancing continued growth and building expansion.

Sample climate change reduction measures implemented during 2006/07

- Summer shutdown of boilers
- Water-saving urinals installed across the sites
- All external lighting now on solar controls
- Travelators switched off at night
- Site-wide energy and water saving awareness campaigns

During 2007/08, MAG will launch and implement an ambitious programme of long term measures that will deliver carbon neutral operations, setting new industry standards in meeting the challenges of climate change for airports and the aviation industry.



Waste management and resource use

At Manchester a milestone was reached in the year with the 10,000th tonne of waste being recycled since 1996.

During the year at Manchester a new waste management contract was introduced for 18 separate materials across the whole site. This allowed on site supervision and monitoring, to comply with legislation, and improve recycling performance.

At Manchester a 17.5% recycling rate has been achieved which equates to a 1,500 tonne increase. Despite a 7% increase in terminal cleaning waste, due to changes in security restrictions introduced in August 2006, the amount of waste disposed has been maintained to below 1999 levels.

A Recycling week was run across the Group to highlight and promote the importance of recycling and related issues.

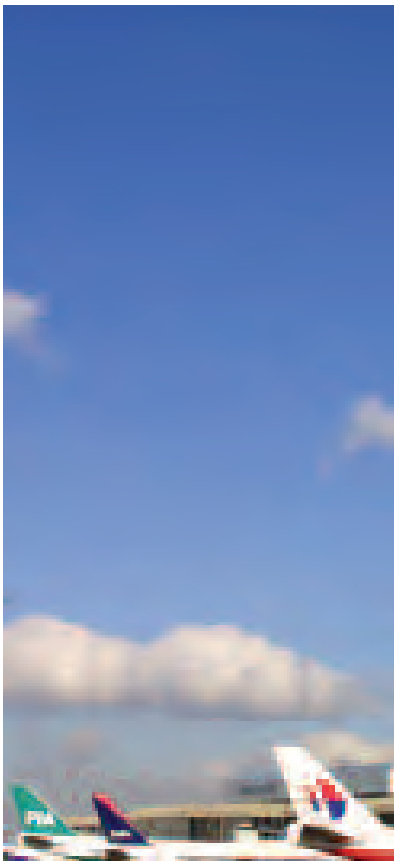
Air Quality

In maintaining a commitment to monitor air quality, MAG has invested in three replacement gaseous monitors at the 'Manchester South' monitoring station operated jointly with Manchester City Council.

The number of vehicles used at Manchester has been reduced from 215 to 199 with £2.5m being spent replacing older vehicles with new models that are cleaner and more efficient than those being replaced.

Despite a hot summer in 2006 and widespread air pollution episodes across the UK, there was compliance with EU air quality limits at our 'Manchester South' air quality monitoring station.

Humberside have recently introduced monitoring of nitrogen dioxide levels across the site. This has confirmed levels are well within the national air quality standard.



Ground Transport

MAG is committed to developing sustainable transport modes to access its airports thereby reducing congestion and vehicle emissions and providing alternatives to the use of private cars.

Manchester Airport has continued to develop and improve the network of public transport services serving the Airport and has introduced measures to reduce congestion on the forecourts. The impact of public transport services and current initiatives removes over one million vehicle trips from the roads around Manchester Airport every year.

Bus links to Altrincham, Trafford and Wythenshawe have been improved in partnership with local operators and Greater Manchester Passenger Transport Executive. Cycling and walking continue to play an important role, 3% of employees either cycle or walk to work, supported by investment in cycle routes, secure parking, showers and the Cycle Centre at The Station.

Close co-operation with Network Rail and the train operators is growing the use of rail by passengers and employees. There are now over two million rail trips to and from Manchester Airport, 30% higher than in 2004. Transpennine Express has invested £250.0m on new trains to serve Manchester Airport, and it will start a new train service to Scotland in late 2007.

The future potential for rail has been strengthened by Network Rail's decision to invest £15.0m in partnership with Manchester Airport, Greater Manchester Passenger Transport Executive and the North West Development Agency to build a third rail platform at Manchester Airport. Work will start in summer 2007 and complete by December 2008. The new platform will boost rail capacity at Manchester Airport and in the Manchester area to improve reliability and cater for future passenger growth.

Measures to limit the impact of road traffic by air passengers were introduced during the winter through restrictions on private car and taxi pick up and drop off on the forecourts. These generally generate four vehicle trips for every air passenger return journey compared to two for those that park at the Airport and none for those using public transport.

At EMA there has been wide consultation on an updated Surface Access Strategy as part of the Master Plan consultation process. The new Surface Access Strategy to 2016 sets challenging targets for ongoing provision and improvement of bus services. As part of a £1.3m kickstart funded EMA Bus Partnership project the Airport has enhanced bus services to Nottingham, Derby and Loughborough and launched a brand new bus service to Leicester. Improvements to the Swadlincote service have also been made and a new bus service to Coalville has been negotiated, which was launched in May 2007.

EMA also invested £85,000 in an award-winning cycle crossing scheme designed and installed by Leicestershire County Council which will allow safer access onto the site from the South.

An integrated surface access strategy has been adopted at Bournemouth Airport, which includes much improved bus services, servicing the conurbation and the Airport's southern and northern sectors.

At Humberside a "Green Commuter Plan" is to be introduced targeting staff working on site to reduce dependency on the car. Initiatives will focus on public transport such as local bus use, but will also promote car sharing and pooled travel. This will decrease local traffic in the area, and reduce carbon emissions as a result.

Land Use and Ecology

At Manchester the success of the Landscape and Habitat Management Plan continues. Monitoring of the 350 hectares of ecological and landscape works continues and is overseen by an independent Nature Conservation Steering Group comprising of representatives from Cheshire County Council, Manchester City Council, Macclesfield Borough Council, Natural England, Cheshire Wildlife Trust, Bollin Valley Project and members of the local community. Two of the new purpose built bat barns have established nursery colonies of bats (Brown Long Eared and Pipstrelle). Many of the new and restored ecological features are now important exemplars for similar schemes.

Bournemouth, working in conjunction with Natural England and Dorset County Council, actively manages sites with European designation for their important habitat or bird communities within the Airport's boundary and close proximity ensuring important heathland areas are preserved and protected.

Humberside has a number of important archaeological and heritage sites within and in close proximity to the Airport. In undertaking future development schemes the Airport will seek to protect any possible archaeological interest. This includes contractors undertaking an archaeological "watching brief", that has been agreed with the Local Planning Authority, as part of any excavations on the Airport site.

Water Quality

At Manchester water quality is monitored by six automatic water quality monitors around the site and manual sampling is also conducted by an in house water services team and independently by the Environment Agency and United Utilities.

A rolling CAPEX programme is in place to identify and improve the effectiveness of the drainage infrastructure which totals 28,000 km of surface water drains.

Community Initiatives

Touching the lives of everyone

Social Commitment and being a good neighbour is a key strategy to MAG. We regularly talk to and work with the people living around our businesses and support many local initiatives. Being a part of the local community is very important and the aim is to do that in a way that reflects the needs of local communities. In this way positive links have been developed with the Airports' neighbours.

MAG has concentrated on education and employment recognising that these elements are of great importance not only to the communities that we serve but also to the future growth of our businesses. MAG is delivering these strategies by using an internal network of employee Community Champions, through a Community Network of on site service partners and at Manchester though community links established with other businesses in the local community of Wythenshawe.

Community Initiatives *continued*

School Governors

This year through the 'School Governors' One-Stop Shop' MAG recruited 50 volunteer school governors.

Mentoring

MAG commits staff to attend school each week supporting the numeracy and literacy needs of local primary schools. This has been further enhanced by volunteer activities encouraging children to participate in art, multi-faith and World of Work projects which enrich the learning agenda and encourage children to think beyond the confines of their school environment.

Parklands High School Academy

This year Manchester Airport was proud to be selected as the principal partner in supporting Parklands High School as a School Academy. The aim is to be integral to encouraging the school in its endeavours to educate and prepare young people to be good corporate citizens ready for the workplace. Manchester Airport is working with children to broaden opportunities and to support the learning agenda for both staff and pupils.

Job Shadow with Parklands High School

As a part of encouraging year 10 children to learn more about the business 150 children came in to shadow employees.

Across the Group involvement with local and regional career fairs, both in places of learning and local communities has not only helped businesses based at the Airports and ourselves recruit locally, but also has informed and educated children in the variety of career opportunities available to them at EMA and Manchester.

Work at Manchester is complemented at EMA where the 'Up in the Air' environmental education resource pack won silver at the annual Green Apple Awards in London. The pack is teacher led and focuses on key stage 2 science and geography learning.

For those who have left the education system MAG is keen to encourage a wide diversity of local people to be future employees. This is enabled though the Airport Academy at Manchester.

The Airport Academy aims to be the first port of call for all Manchester Airport employers' recruitment needs. It promises to maximise employment opportunities and local economic benefit generated by Airport activity to local residents. The Academy links training, development and employment to areas of depravation offering a vocational process which can link to the Schools Academy and local colleges. Work in this area has been acknowledged by Business in the Community by being awarded a 'Big Tick' in the 2007 awards.

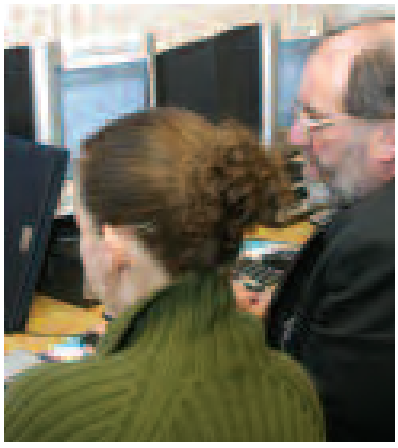
Sports

Since 2004 Humberside has been involved in the sponsorship of local football teams. The Airport is currently a major sponsor of the Hull and Grimbsy youth football teams and since April 2005 has sponsored the Grimbsy Town School of Excellence as part of a three year sponsorship deal. In 2004 an important strategic alliance was formed with Hull City. The Airport became the official sponsor of the new training facility, and is involved in the continued development of the clubs Centre of Excellence facilities.

EMA works with key sporting bodies such as County Sports Partnerships and Sport England. It also sponsors the Nottinghamshire Youth Games and supports local sporting teams, organisations and activities within the immediate vicinity of the Airport.

Community Trust Funds

The Manchester Airport Community Trust Fund was founded 10 years ago. It has given £2.0m to the community in the form of cash grants. More recently the East Midlands Community fund has been established to provide financial support in its local area. Support is for projects which are for the direct benefit of those who live around our site. Beneficiaries have ranged from village halls, youth and community groups and rural footpaths.



Community Initiatives *continued*

In the Community

MAG believes in talking to local communities. Each year it engages with parish councils, holds community outreach events and talk to individuals on the telephone and at face to face meetings.

All of our Airports ensure that best practice is used to encourage the quietest operations both on departure and arrival.

We acknowledge the huge employment offered in the rural communities around our Manchester site. We aim to introduce our employees to the food and produce and to make us a part of the local rural economy. Support for local producers is offered through our annual Food and Craft Fair.

At the Group Airports there has been an emphasis on encouraging involvement in sport supporting local organisations that encourage sporting activity and education towards healthier lifestyles. Over 18,000 children have had the opportunity to participate in sporting activities from football to javelin and coaching.

MAG employee volunteers have donated a total of 3,000 hours supporting a variety of local environment initiatives such as the partnership with the National Forest, the Air Ambulance, the BBC's Children in Need, coaching, supporting education links and fun events for children and the elderly.

Our sites are largely rural, hence our commitment to sensitive maintenance and upkeep of the surrounding locations, close to the airport perimeter. At EMA a 6km circular trail has been developed for local residents and visitors alike, passing through varied habitats and providing striking views of the Trent Valley as well as opportunities to see owls, kestrels and a thriving biodiversity. Collaborative work with local artist Sarah Fiander and local schools will create a new sculpture to be placed on the north side of the trail.

Arts Sponsorship

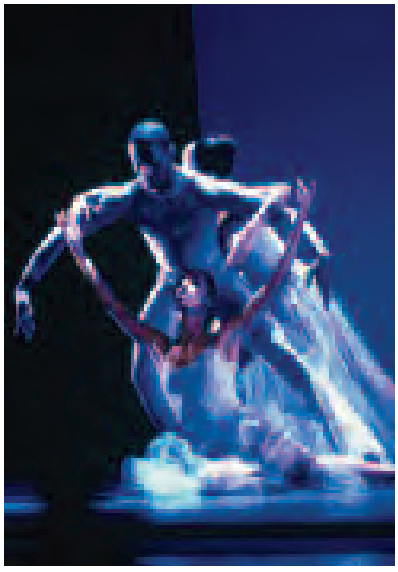
MAG Is committed to investing and supporting arts regionally and nationally, encouraging the success of arts and culture in each region that it operates.

Through the arts and sponsorship programme, MAG has not only created employment but has also promoted art forms to those who would not normally have access to them in improving and expanding the cultural scene on a national level.

Last year MAG contributed just under £1.0m to the arts through arts sponsorship. This included the sponsorship of several major events and continued an ongoing programmes of sponsorship of prestigious arts organisations.

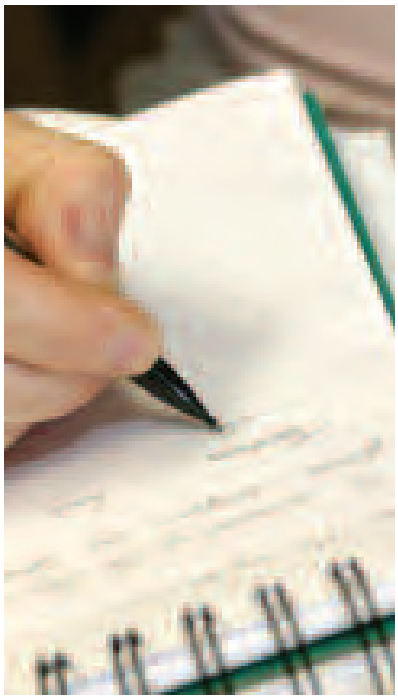
MAG seeks to cover every aspect of the arts: theatre, music, poetry, fine arts, photography fashion and new media.

Although the art programme started in Manchester, it seeks to expand this across the Group including most recently sponsorships to local arts and theatres in Bournemouth.



People and Employee Welfare

As a significant local employer MAG brings economic and social benefits in all the regions in which it operates. MAG directly employs over 2,800 people across the four airports and supports tens of thousands of additional jobs in aviation-related businesses and beyond through inward investment and tourism.



Training and Personal Development

MAG is committed to developing the capabilities and careers of all its employees. The management and development of people has been underpinned by further embedding the MAG performance management process, so that it covers all our employees.

MAG has a comprehensive technical training programme, which provides our employees with the skills they need to operate the Airport safely. To complement this in October 2006 we launched a Group wide Management Development Programme comprising a mixture of on the job learning and classroom based opportunities.

This year we have launched a personal development programme across the Group, where our colleagues can apply for a grant of £150 to spend on personal development related to work at the Airport. We have people following a range of courses such as Spanish, IT and Law.

The newly launched Skills Academy at EMA will provide fully funded NVQ Level 1 and 2 training to anyone on the airport site who does not possess five GCSEs or equivalent. The qualification will be in any relevant occupational area where the learner is employed. In addition we offer Skills for Life, Foundation Degrees and Learn Direct courses.

Communications

Face-to-face Business Update briefings held in the Spring and Autumn help to keep staff informed of the business objectives and how they can play their part in helping to deliver future success.

This was supplemented in 2006 with the launch of 'Team Brief', a monthly opportunity for colleagues in small groups to discuss with their Line Manager how the business is progressing and to raise questions and ideas.

MAG also considers that consultation with trade unions is an integral part of the communication process. The following trade unions are recognised by the Group – T&GWU, T&GWU(ACTS), AMICUS, Unison and Prospect – and regular information and consultation exchanges take place with them.

The importance of communications came into its own during the 10 August security alert when millions of passengers, staff, and partners needed to be kept informed of changing restrictions. At Manchester, teams of office workers joined operational staff in the Security and Terminal areas to help passengers and ensure the airport continued to run smoothly. Manchester Airport won acclaim at Government level for its effective handling of the situation.

But in a year of challenges, there was also time for fun. The re-launch of the Group 'Stars' Recognition Scheme culminated in an annual dinner that recognised members of staff judged by their peers to have gone the extra mile in their work. The Corporate Games brought together colleagues from all four Airports to take part in a mini-Olympics for companies – providing an opportunity for team-building, networking and mostly, for having fun.

At the heart of communications is the belief that we have to not only inform colleagues but also actively engage them in the business issues. Our aim is to create the best team by keeping them informed and motivated to help the Group succeed in its aims.

Recruitment

MAG Airports work closely with Jobcentre Plus and the Learning and Skills Council to raise awareness of the Airports as an employment centre and to contribute towards the social and economic well-being of the local areas.

Across the Group our involvement with local and regional career fairs have not only helped businesses based at the Airports and ourselves recruit locally, but also have informed and educated children in the variety of career opportunities available to them.

At EMA there is involvement with over 20 local and regional job fairs and this year had a presence at 11 school career events educating children on a variety of career opportunities available to them at EMA. One of the most high profile of these career events was the Career Day at Derby Assembly Rooms. Working in partnership with several East Midlands employers, Business in the Community and a Nottingham based theatre company, has brought together 2,000 year 5 pupils from across the city in an interactive theatre production to highlight career opportunities in the region.

Work experience placements, across all our Airports, play an essential part in young adults' learning. Not only do they provide them with the opportunity to apply their studies in practice but also give them first hand experience in the world of work. The majority of our placements have seen students gain experience of what it is like to work on a busy information desk through to participating in a new destination and media launch.

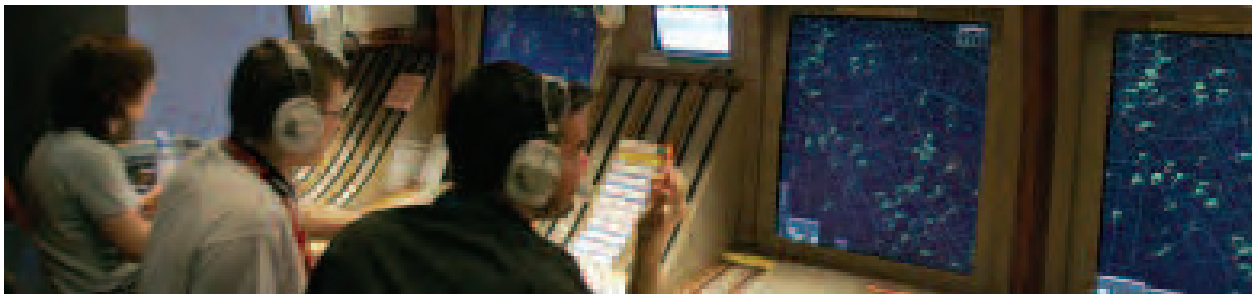
Policies and Procedures

MAG monitors issues such as diversity, ethnicity, disability, gender and age. Policies and procedures relating to such issues are regularly updated to ensure they remain appropriate. The Group also encourages flexible working practices, where practicable.

In response to employee attitude surveys, an Anti-Bullying Working Group was established to share best practice and improve awareness through seasonal communication campaigns to reinforce MAG's commitment to Dignity at Work. As a result we have doubled the number of trained Dignity at Work supporters, taking the total to 25 across the Group.

Throughout the last year MAG has been working in conjunction with representatives of a number of the Trade Unions to develop revised core employment policies for the Group. This policy review will continue this year and will be extended to incorporate the changes as a result of introducing the new HR information system and the launch of the Customer First initiative.

MAG's commitment to good employment is enshrined in its Fair Deal Policy principles that promote fair treatment and development of existing employees incorporating equal opportunities and diversity aspirations. Information on such employment statistics are reported to the Group Board on a monthly basis.



Occupational Health

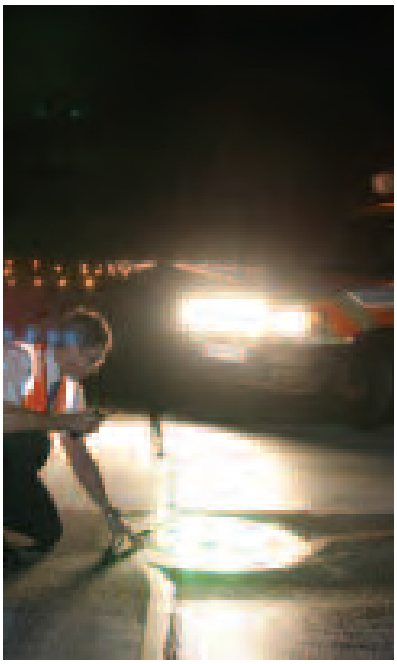
During the last year occupational health have rolled out a full health surveillance programme to ensure the company complies with health and safety legislation. This ensures that each individual is well enough to undertake the duties required and that the job does not cause ill health or exacerbate pre-existing health problems.

Other services include absence management, case management and health education programmes on lifestyle issues, to try and ensure staff remain in optimum health. Issues such as smoking, weight loss, blood pressure, exercise regimes and stress have been covered throughout the year.

We continue to provide pre-employment screening to assess an individual's fitness to undertake the duties required of them, taking into account the demands of their position and any statutory obligations. Advice also includes recommendations and restrictions to ensure the Group complies with the Disability Discrimination Act.

Occupational health role includes ;

- providing accurate information and advice
- assist with timely access to effective health care
- facilitate early return to work
- advise on modified duties
- assist line managers and HR in the return to work process



Health and Safety

MAG aims to engender a culture where everyone understands and accepts personal responsibility for the health and safety of themselves and others.

During the year under review there has been continued development of the MAG Safety Management System in order that risk is assessed and managed. Development work on the electronic manual of procedures is now complete, giving access to all MAG sites, training and information is provided to ensure that the contents of the manual are used to best effect.

Proposed developments in the MAG Safety Management System are:

- Rollout of a MAG wide electronic archive and depository for risk assessments and safe systems of work;
- Adoption of specific industry benchmarking on accident and ill health statistics to be monitored by the Corporate Safety Steering Group;
- Implementation of a Safety Improvement Plan, developed in full consultation and liaison with service partners across the Manchester site, the plan will be a keystone in prioritising the Safety Management Action Plan for the coming years.

MAG Wide Employee Accident Statistics

Year	Non Reportable[1]	RIDDOR Reportable[2]	RIDDOR %[3]
2004/05	357	68	16
2005/06	283	66	19
2006/07	383	68	15

[1] MAG encourages employees to report all accidents no matter how trivial, thereby ensuring investigation and remedial action where necessary. All such accidents are recorded and as such this figure contains many non-serious events.

[2] Injuries reportable to Health and Safety Executive requiring more than 3 days off Work

[3] Percentage of RIDDOR accidents to total.

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 revised Combined Code issued by the Financial Reporting Council in July 2003 ("the Code").

Role of the Board

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 Board has also established a number of committees with specific delegated authority; more information on the membership and the terms of reference of these committees is provided later in this report.

Membership of the Board

The Board currently comprises the Chairman, 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 43. 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 criteria. The Board considers that all the non-executive directors are independent both in character and judgement. The Council of the City of Manchester (that holds 55% of the shares) has nominated Brian Harrison. The other Shareholders who collectively hold 45% of the shares have nominated Peter Smith. The Group meets the requirement of the Code that at least half the Board comprises independent directors.

The roles of the Chairman and Chief Executive are separate and clearly defined. The Chairman 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 Commercial Director and the Group Finance Director. The Chairman was independent for the purposes of the Code on appointment.

The Board has reviewed its decision not to appoint a senior independent director and has concluded that since the roles of the Chairman 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, a senior independent director is not necessary. The prior approval of the Shareholders is required in respect of all Board appointments. Non-executive directors are appointed for periods of up to three years.

Board Processes and Procedures

The Board meets formally at least ten times a year and also on additional occasions to consider specific business matters. Arrangements are in place for the Chairman to meet with the non-executive directors without the executive directors being present, such meetings are held as and when required.

A procedure has been established for evaluating performance and the performance of non-executive directors, the Board and committees of the Board have been reviewed against this procedure.

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.

Board Committees

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. These responsibilities are discharged as follows:

- At its meetings in June and November the audit committee reviews the annual report and accounts and interim report, respectively and the Group Treasury Policy;
- The external auditors meet with the audit committee in June and November without management present;
- The Head of Group Risk Assurance presents a report on risk management and internal audit (including matters relating to the whistle blowing policy) to each meeting;
- Board control procedures and the effectiveness of Internal Audit are reviewed in March each year.

The Audit Committee has established a policy on the engagement of the external auditors for non-audit services. This policy defines different categories of services that can either be carried out by the external auditor or another service provider and the authorisation required and is reviewed annually. The Audit Committee receives half yearly reports providing details of non-audit services (and related

fees) carried out by the external auditors. These reports are used by the Committee to monitor and review the independence and objectivity of the external auditors.

The current members of the Audit Committee are David Kennedy (Chairman), 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.

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. The Head of Risk Assurance also has the opportunity to meet with the Chairman of the Audit Committee without executive management being present.

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 44.

The current members of the Remuneration and Review Committee are Alan Jones (Chairman), John Hancock, Brenda Smith, Brian Harrison and Peter Smith. All members of the Remuneration and Review Committee are independent non-executive directors.

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

Nomination Committee

A nomination committee was convened once during the year comprising Alan Jones (Chairman), John Hancock, Brian Harrison and Peter Smith, for the specific purpose of filling the non-executive vacancy created by Michael Gooddie stepping down. Michael Hancox was subsequently appointed to the Board.

Individual directors attendance at Board and committee meetings is set out below.

	Board	Audit	Remuneration
Total number of meetings in 2006/07			
Number of meetings attended			
Alan Jones	10	–	3
Michael Gooddie [1]	7	–	2
John Hancock	10	–	3
Michael Hancox [2]	2	–	–
Brian Harrison	10	5	3
David Kennedy	9	5	–
Thomas Marshall	10	–	–
Michael Medlicott	9	5	–
Brenda Smith	10	–	–
Peter Smith	10	4	3
Geoff Muirhead	10	–	–
Rowena Burns	10	–	–
Richard Pike	9	–	–

[1] Michael Gooddie stepped down in December 2006

[2] Michael Hancox was appointed in February 2007

Relations with Shareholders

The Board is committed to a proactive communications programme with its Shareholders. The Chairman, Group Chief Executive, Group Commercial 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:

- Three year business plan;
- 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.

Report on Corporate Governance

continued

Corporate Responsibility

The Group recognises the increasing importance of effective management of corporate responsibility (CR) and the link between CR 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. Corporate, social and ethical risks are identified and managed pursuant to the Group's risk assessment and management process. More information on the Group's commitment to CR can be found in the Corporate Responsibility Report on page 25.

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.

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.

The Risk Assurance function, covering risk management, internal audit and Health & Safety compliance, reports directly to the Group Chief Executive.

During the year under review, the process for the maintenance of Risk Registers in each operating division has been refined and improved. The Registers are managed by individual risk owners and are updated as appropriate. This process is supported by the holding of annual Business Risk Workshops at a divisional level and quarterly reviews of Group wide risk issues by the Executive Directors.

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

Chairman

Alan Jones FREng, FIEE, FRAeS

Appointed non-executive Chairman of the Company in January 2004. Formerly Chief Executive of BICC plc and The Westland Group, he is currently a director of Witan Investment Trust and a non-executive director of Agusta Westland; he has also served as a member of the Financial Reporting Council.

Executive Directors

Geoff Muirhead CBE, FCIT, FRSA, FICE

Appointed Group Chief Executive in June 2001. Having joined Manchester Airport PLC in 1988 he was appointed Chief Executive in October 1993. External appointments include Member of CBI North West Regional Council, Deputy Chairman of the North West Business Leadership Team; Board Member of Airports Council International; Board Member Manchester Metropolitan University; Executive Board Member of North West Regional Assembly; Associate Member of Greater Manchester Chamber of Commerce and Industry.

Rowena Burns

Appointed Group Strategy Director in June 2001, Rowena assumed the role of Group Commercial Director in February 2006 following a management restructure. In previous roles with Manchester City Council and the Greater Manchester Passenger Transport Authority, she worked on the development of Manchester's Light Rail System, City centre economic development and the disposal of former municipally-owned businesses.

Richard Pike LLB, ACA, AMCT

Appointed Group Finance Director in September 2005. Prior to joining MAG, Richard previously had a variety of corporate and operational finance roles at Pilkington plc and Scapa Group plc.

Non-Executive Directors

John Hancock

Appointed in February 2002. He is President of the British-American Business Council; he is a former Chief Executive of MFI Furniture Group plc and is a former executive director of the W H Smith Group plc.

Mike Hancox

Appointed in February 2007. He is currently Chief Executive Officer of Otto UK. He was formerly Chief Operating Officer of Littlewoods Shop Direct Group and formerly Finance Director of GUS Home shopping and Premier Brands Ltd.

Brian Harrison

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

Appointed in April 2002. From 12 June 2003 to 31 December 2003 he acted as interim non-executive Chairman of The Manchester Airport Group PLC. He is also a director of a number of public and private companies and an aviation consultant. He was formerly Chief Executive Officer of Aer Lingus, Chief Operating Officer of TransWorld Airlines and Deputy Governor of the Bank of Ireland.

Thomas Marshall FRICS

Appointed in January 2004. He is also Chairman of The Hollins Murray Group – a North West based property investment company. He was formerly Chairman of the Cheshire Building Society and formerly Deputy Chairman of Lambert Smith Hampton.

Michael Medlicott FRSA, CRAeS

Appointed in January 2004. He is currently a non-executive director of National Savings & Investments at HM Treasury and a non-executive director of a number of other companies. He was formerly International Vice President of Delta Air Lines Inc. and Chief Executive of the British Tourist Authority.

Brenda Smith ACA

Appointed in January 2004. Formerly President of EMEA Ascent Media Group and former Deputy Chairman of Granada TV Limited, a Director of the North West Development Agency, a Director of Liverpool Vision and a Director of Manchester International Festival.

Peter Smith, Lord Smith of Leigh

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 implements 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 41. The terms of reference for the Committee are as follows:

- To determine and review the policy for the remuneration of executive directors and senior executives 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 Group Human Resources Director 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 caliber 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 senior executives subject to the fulfillment 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.

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. The executive directors are eligible to participate in the Manchester Airport Group Executive Bonus Scheme. Subject to satisfactory personal and company performance and the achievement of personal targets, the executive directors could earn a maximum bonus of 30% of base salary. However, no bonus was paid in 2006/07 as the qualifying criteria for company performance was not met.

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

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 Chairman. The Shareholders' Appointments Panel determines the remuneration for the Chairman.

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.

Audited information

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

	Salary/fees/ expenses	**Car/fuel card cash alternative**	**Bonuses**	**Benefits in kind** (*Note 1*)	**Total emoluments 2007**	Total emoluments 2006
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000
Executive Directors						
Geoff Muirhead	338	4	–	14	356	413
Rowena Burns	247	–	–	21	268	300
Richard Pike	245	–	–	20	265	297
Philip Ridal *(Note 2)*	–	–	–	–	–	150
Non-Executive Directors						
Alan Jones	120	–	–	–	120	120
Michael Gooddie	25	–	–	–	25	25
John Hancock	25	–	–	–	25	25
David Kennedy	25	–	–	–	25	25
Thomas Marshall	25	–	–	–	25	25
Michael Medlicott	25	–	–	–	25	25
Brenda Smith	25	–	–	–	25	25
	1,100	4	–	55	1,159	1,430

Notes

(1) Benefits in kind include the taxable values of cars, fuel and critical illness insurance provided by the Group. Both Richard Pike and Rowena Burns received all of these benefits in kind during the year; Geoff Muirhead received a car and critical illness cover. Those Directors not taking advantage of the full suite of benefits in kind available were compensated through additional salary payments.

(2) Philip Ridal resigned in September 2005.

Brian Harrison and Peter Smith receive no remuneration or fees.

Directors' Remuneration Report

continued

Retirement Benefits

Geoff Muirhead and Rowena Burns are members of the Greater Manchester Pension Fund, a defined benefit scheme. Richard Pike is a member of the Group's money purchase scheme and the Group paid contributions of £27,000 to this scheme on his behalf in the year.

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

	Pensionable Service at 31 March 2007 Years	**Accrued pension at 31 March 2007 £'000**	Accrued pension at 31 March 2006 £'000	**Accrued lump sum at 31 March 2007 £'000**	Accrued lump sum at 31 March 2006 £'000
Geoff Muirhead	**18.50**	**78**	69	**235**	80
Rowena Burns (*Note 1)*	**20.58**	**64**	55	**191**	166

	Transfer value at 31 March 2006 £'000	Changes to transfer value £'000	**Transfer value at 31 March 2007 £'000**
Geoff Muirhead	1,076	202	**1,278**
Rowena Burns (*Note 1)*	926	170	**1,096**

Notes

(1) Rowena Burns pensionable service with the Greater Manchester Pension Fund at 31 March 2007 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
Chairman of the Remuneration and Review Committee
14 June 2007

Directors' Report

for the year ended 31 March 2007

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2007.

Principal activities

The Manchester Airport Group ('the Group') comprises the Company and its subsidiaries. The principal activities of the Group during the year were the ownership, operation and development of airport facilities in the UK. The Group's revenues were derived 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 54.

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.

A more detailed review of the Group's principal activities, results and future developments is provided in the Chairman's Statement, the Review of Operations and the Finance Review.

Dividends and transfers to reserves

The Directors recommend that a final dividend of £25.0m (12.24 pence per share) (2006: £25.0m (12.24 pence per share)) is declared. The retained profit for the year of £68.0m (2006: £29.0m) will be transferred to reserves.

Shareholders

The Shareholders as at 31 March 2007 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

The names and biographical details of the directors are set out on page 43. Alan Jones was re-appointed as Chairman for a further term of three years with effect from January 2007. David Kennedy was re-appointed as a non-executive director for a further term of one year with effect from January 2007. Michael Gooddie stood down as a non-executive director with effect from December 2006 and Michael Hancox was appointed as a non-executive director for a term of three years with effect from February 2007.

The Directors of the Company, who held office during the year, or thereafter, had no interest in the shares of the Group companies at any time during the year.

As far as the Directors are aware, there is no relevant audit information of which the Group's auditors are unaware. The Directors have also taken all necessary steps to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of this information.

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 32 to these financial statements.

Employees

Employment Policies

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

Directors' Report

for the year ended 31 March 2007 continued

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. During the year under review a number of mini surveys were undertaken where a random sample of employees were selected to participate and provide their views.

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, more information on consultation is provided in the report on corporate responsibility. In addition, business briefings are cascaded throughout the organisation to communicate key business and operational issues and there are Group wide in-house newspapers, which are produced on a monthly basis.

Policy and practice on payment of creditors

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

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

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

The period of credit taken by the Group at 31 March 2007 was 61 days (2006: 54 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 Group and its subsidiaries during the year totalled £0.1m (2006: £0.2m). The donations were all made to recognised local and national charities for a variety of purposes. It is the Group's policy not to make contributions to political parties.

Auditors

During the year the audit services were put out to tender, KPMG LLP were appointed by the directors in September 2006 to fill a casual vacancy on the resignation of PricewaterhouseCoopers LLP following the tender process. A resolution to reappoint KPMG LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board

S Welsh
Secretary
For and on behalf of
the Board of Directors

14 June 2007

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 7A to the Companies Act 1985, as if those requirements were to apply to the company. The directors have also decided to prepare voluntarily a Corporate Governance Statement as if the company were required to comply with the Listing Rules of the Financial Services Authority in relation to those matters.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Members of The Manchester Airport Group PLC

We have audited the group financial statements (the 'financial statements') of The Manchester Airport Group PLC for the year ended 31 March 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of The Manchester Airport Group PLC for the year ended 31 March 2007 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 49.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Review of Operations and the Financial Review that is cross referred from the Results, review of business and future developments section of the Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 group'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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 March 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP
Chartered Accountants
Registered Auditor
14 June 2007

Accounting policies

Basis of accounting

These financial statements are prepared on a going concern basis and in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and with those parts of the Companies Act applicable to companies reporting under IFRS. The historical cost convention is applicable to these financial statements with the exception of investment properties, derivative financial instruments, available for sale financial assets and employee benefit scheme assets and obligations, which are fair valued at each reporting date.

New accounting standards or interpretations adopted for the first time in the preparation of these financial statements are IFRIC4 and the IAS39/IFRS4 amendment on financial gurantee contract

The preparation of these financial statements in accordance with prevailing accounting practice requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The assumptions and estimates are based on management's best knowledge of the event or actions in question, however actual results may ultimately differ from these estimates.

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 consolidation

These consolidated accounts include the results, balance sheets and cash flows for The Manchester Airport Group PLC and all of its subsidiaries. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries have been consolidated from the date that control commences until the date that control ceases.

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

Revenue

Revenue in relation to the main income streams of aviation, baggage, car parking, concessions and the majority of property income are all recognised as the related services are provided and 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.

Property, plant and equipment

Property, plant and equipment constitutes the Group's operational asset base including terminal, airfield, car parking, land, plant, and owner occupied property assets. Investment properties held to earn rentals or for capital growth are accounted for separately under IAS 40 'Investment properties'.

The Group has elected to use the cost model under IAS 16 'Property, plant and equipment' as modified by the transitional exemption to account for assets at deemed cost that were revalued previously under UK GAAP. Deemed cost is the cost or valuation of assets as at 1 April 2005. Consequently property, plant and equipment is stated at cost or deemed cost less accumulated depreciation. Cost includes directly attributable own labour.

The Group does not capitalise borrowing costs into the cost of property, plant and equipment.

Depreciation is provided to write off the cost of an asset to its residual value on a straight-line basis over the expected useful life of the relevant asset. Expected useful lives are set out below:

	Years
Freehold and long leasehold property	10 – 50
Runways, taxiways and aprons	10 – 75
Main services	7 – 50
Plant and machinery	5 – 30
Motor vehicles	3 – 7
Fixtures, fittings, tools and equipment	5 – 10

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

Assets under construction which principally relate to airport infrastructure are not depreciated until such time that they are available for use.

If there are indications of an impairment in the carrying value then the recoverable amount is estimated and compared to the carrying amount.

Accounting policies

continued

Investment properties

The Group accounts for investment properties in accordance with IAS 40 'Investment Properties'. An investment property is one held to either earn rental income or for capital growth. The Group has elected to use the fair value model and therefore investment properties are initially recognised at cost and then revalued to fair value at the reporting date by an Independent Property Valuer. Investment properties are not depreciated.

Gains or losses in fair value of investment properties are recognised in the income statement for the period in which they arise. Gains or losses on disposal of an investment property are recognised in the income statement on completion.

Leases

Leases are classified according to the substance of the agreement. Where substantially all the risks and rewards of ownership are transferred to the Group, a lease is classified as a finance lease. All other leases are classified as 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.

Finance leased assets are capitalised in property, plant and equipment at the lower of fair value and the present value of minimum lease payments and depreciated over the shorter of the lease term and the estimated useful life of the asset.

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 term.

Available for sale financial assets

The Group has investments in a number of small 'seedcorn' companies in the technology sector. The investments are classified as available for sale financial assets, which are fair valued at each reporting date. Any impairments are recognised in the income statement.

Fair value is the amount a knowledgeable and willing third party would exchange for the asset. Fair value is established by reference to a number of factors including the investments' profitability, cash flows, assets and general market conditions.

Derivative financial instruments

The Group has entered into an amortising interest rate swap contract that has the effect of fixing the interest rate on an element of the Group's variable rate debt. The fixed interest rate on the swap contract mitigates the risk of the Group's exposure to variations in interest costs.

The swap contract is recognised on the balance sheet at fair value. Fair value is established by reference to current market rates for interest rate swap contracts of similar terms and duration.

The interest rate swap has been designated as a cash flow hedging instrument qualifying for hedge accounting treatment. The effective portion of changes in the fair value of the interest rate swap is recognised in equity, with any ineffective portion being recognised in the income statement. Amounts accumulated in equity are recycled to the income statement when the hedged item will affect profit or loss.

Grants

Revenue grants are recognised in the income statement during the periods to which they relate.

Grants received and receivable relating to property, plant and equipment are shown as a deferred credit on the balance sheet. 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.

Cash and Cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank deposits and short term deposits net of bank overdrafts, which have an original maturity of three months or less.

Accounting policies

continued

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation due to temporary differences between the tax bases of assets and liabilities and the accounting bases of assets and liabilities in the financial statements.

The principal constituent of the deferred tax liability in the Group financial statements is temporary differences on property, plant and equipment where the carrying value in the financial statements is in excess of the tax base due to accelerated capital allowances and the previous effects of revaluations under UK GAAP.

Deferred tax assets are recognised to the extent that it is regarded as probable that the temporary difference can be utilised against taxable profit in the future. The Group recognises deferred tax assets on its defined benefit pension scheme deficits as it is regarded as probable that that there will be sufficient taxable profits in the future to offset pension contributions.

Taxation and deferred tax, relating to items recognised directly in equity, are also recognised directly in equity.

Deferred taxation is based on the tax laws and rates that have been enacted at the balance sheet date and that are expected to apply when the relevant deferred tax item is realised or settled.

On 21 March 2007, it was announced that the standard rate of corporation tax was to be changed to 28% and capital allowance legislation impacting on the calculation of the deferred tax provision of the Group will be introduced for taxable periods beginning on or after 1 April 2008. For the purpose of the Group accounts for 31 March 2007, the standard rate of corporation tax and capital allowance legislation prior to these changes has been applied.

Employee Benefit Costs

The Group participates in several defined benefit and defined contribution schemes, which are contracted out of the state scheme as well as a defined contribution scheme.

The costs of defined contribution schemes are charged to the income statement in the year in which they are incurred.

Defined benefit schemes are accounted for as an asset or liability on the balance sheet. The asset or liability reflects the present value of defined benefit obligations, less the fair value of plan assets, adjusted for past service costs.

The amount reported in the income statement for employee benefit costs includes past service costs, current service costs, interest costs and return on assets income. Past service costs are charged to the income statement immediately and current service costs are charged to the income statement for the period to which they relate. Interest costs, reflecting the unwinding of the discounted value of the scheme obligations, and return on assets, reflecting the long term expected return on scheme assets, are charged or credited to the income statement for the period to which they relate. Acturial gains and losses are recognised in the SORIE.

The defined benefit asset or liability, the current and past service costs are calculated at the reporting date by an independent actuary using the projected unit credit method.

Dividends

A dividend to the Group's shareholders is recognised as a liability in the consolidated financial statements during the period in which the right to receive a payment is established via the declaration of a dividend by the Group's Shareholders.

Consolidated income statement

for the year ended 31 March 2007

	Notes	2007 £m	2006 £m
Revenue	1	**385.5**	385.2
Profit before restructuring costs and impairment		**82.9**	87.7
Restructuring costs		**(2.8)**	(3.7)
Impairment of property, plant and equipment	12	**(5.1)**	–
Profit from operations	3	**75.0**	84.0
Impairment of available for sale investments	14	**(1.5)**	(0.9)
Movement in investment property fair values	13	**33.4**	31.0
Finance income	6	**1.2**	1.1
Finance costs	7	**(27.2)**	(27.5)
Profit before taxation	8	**80.9**	87.7
Taxation	9	**(13.2)**	(27.0)
Profit for the year after taxation		**67.7**	60.7

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

Earnings per share expressed in pence per share –			
Basic	11	**33.14**	29.71
Diluted	11	**33.14**	29.71

Consolidated statement of recognised income and expense

for the year ended 31 March 2007

	Note	**2007 £m**	2006 £m
Profit for the year after taxation		**67.7**	60.7
Actuarial gains / (losses) on retirement benefit liabilities	28	**27.4**	(9.5)
Deferred tax on retirement benefits actuarial movements	28	**(8.2)**	2.9
Deferred tax on pension lump sum contribution	28	**5.3**	–
Changes in fair value of cash flow hedges	28	**1.2**	(0.1)
Deferred tax on changes in fair value of cash flow hedges	28	**(0.4)**	–
Net gains / (losses) recognised directly in equity		**25.3**	(6.7)
Total recognised income for the year		**93.0**	54.0

Consolidated balance sheet

as at 31 March 2007

	Notes	2007 £m	2006 £m
Assets			
Non-current assets			
Property, plant and equipment	12	**1,157.7**	1,167.7
Investment properties	13	**302.1**	261.6
Deferred tax assets	25	**20.7**	28.1
		1,480.5	1,457.4
Current assets			
Trade and other receivables	15	**35.4**	41.2
Cash and cash equivalents	16	**13.9**	94.8
		49.3	136.0
Liabilities			
Current liabilities			
Borrowings	17	**(9.9)**	(14.9)
Trade and other payables	22	**(105.6)**	(95.0)
Deferred income		**(7.7)**	(3.2)
Current tax liabilities		**(6.1)**	(10.7)
		(129.3)	(123.8)
Net current (liabilities) / assets		**(80.0)**	12.2
Non-current liabilities			
Borrowings	17	**(286.6)**	(375.8)
Derivative financial instruments	23	**0.3**	(0.9)
Retirement benefit liabilities	24	**(24.0)**	(67.7)
Deferred tax liabilities	25	**(204.7)**	(206.1)
Other non-current liabilities	26	**(24.4)**	(26.0)
		(539.4)	(676.5)
Net assets		**861.1**	793.1
Shareholders' equity			
Share capital	27	204.3	204.3
Retained earnings	28	656.8	588.8
Total equity		**861.1**	793.1

The financial statements on pages 51 to 83 were approved by the Board of Directors on 14 June 2007 and signed on its behalf by:

Alan Jones **Chairman**

Geoff Muirhead **Group Chief Executive**

Consolidated cash flow statement

for the year ended 31 March 2007

	Notes	2007 £m	2006 £m
Cash inflows from operating activities:			
Profit before taxation		**80.9**	87.7
Change in available for sale fair values		**1.5**	0.9
Change in value of investment properties		**(33.4)**	(31.0)
Finance income and expense		**26.0**	26.4
Depreciation, amortisation and impairment		**69.7**	67.5
Gain on sale of property, plant and equipment		**(0.8)**	(0.2)
Decrease in trade and other receivables		**5.8**	7.5
Release of grants		**(1.5)**	(1.5)
Increase / (decrease) in trade and other payables		**12.7**	(2.6)
Decrease in retirement benefits provision		**(16.3)**	(7.7)
Cash generated from operations		**144.6**	147.0
Interest paid		**(27.4)**	(26.8)
Interest received		**1.2**	1.1
Tax paid		**(15.1)**	(26.0)
Net cash from operating activities		**103.3**	95.3
Cash flows from investing activities			
Purchase of property, plant and equipment		**(59.1)**	(92.7)
Purchase of investment properties		**(6.0)**	–
Proceeds from sale of property, plant and equipment		**1.2**	0.5
Proceeds from sale of investment properties		**0.2**	–
Purchase of fixed asset investments		**(1.5)**	(0.9)
Proceeds from capital grants repaid		**–**	(0.3)
Net cash used in investing activities		**(65.2)**	(93.4)
Cash flows from financing activities			
Net proceeds from issue of new bank loan		**100.0**	180.0
Repayment of bank loan borrowings		**(180.0)**	(170.0)
Repayment of other borrowings		**(5.8)**	(10.7)
Finance lease principal payments		**(2.5)**	(3.1)
Dividends paid to shareholders		**(25.0)**	(25.0)
Net cash used in financing activities		**(113.3)**	(28.8)
Net decrease in cash and cash equivalents	33	**(75.2)**	(26.9)
Cash and cash equivalents at 1 April		**88.5**	115.4
Cash and cash equivalents at 31 March		**13.3**	88.5

Cash and cash equivalents include overdrafts of £0.6m (2006: £6.3m)

Notes to the financial statements

for the year ended 31 March 2007

1. Revenue

An analysis of the Group's revenue is as follows:

	2007 £m	2006 £m
Aviation income	**183.9**	192.5
Commercial income		
Baggage and freight handling	**12.7**	12.7
Car parking	**47.7**	45.1
Property and property related income	**46.7**	43.7
Concessions	**65.3**	61.6
Other	**29.2**	29.6
Total commercial income	**201.6**	192.7
Total income	**385.5**	385.2

2. Business and geographical segments

For management purposes, the Group is currently organised into six main operating divisions: Manchester Airport, Manchester Airport Developments, East Midlands Airport, Bournemouth Airport, Humberside Airport and Aviation Services. The divisions are the basis of which the Group reports its primary information.

2007

	Manchester Airport £m	Manchester Airport Developments £m	East Midlands Airport £m	Bournemouth Airport £m	Humberside Airport £m	Aviation Services £m	Other and consolidation £m	**Consolidated £m**
Revenue								
External sales	277.5	21.5	53.2	11.3	9.3	12.6	0.1	**385.5**
Inter-segment sales	0.1	2.2	0.1	–	–	4.9	(7.3)	**–**
Total revenue	277.6	23.7	53.3	11.3	9.3	17.5	(7.2)	**385.5**
Result								
Segment profit before restructuring costs and impairment	55.4	14.6	12.2	0.7	0.6	(1.0)	0.4	**82.9**
Other information								
Segment assets	1,027.1	*(Note 1)*	298.9	64.5	22.4	3.2	113.7	**1,529.8**
Segment liabilities	(386.2)	*(Note 1)*	(168.2)	(36.9)	(14.6)	(6.9)	(55.9)	**(668.7)**
Capital expenditure	44.1	6.2	15.3	0.7	1.0	0.3	(0.2)	**67.4**
Depreciation	55.5	0.5	7.4	0.6	0.7	0.4	(0.5)	**64.6**

(Note 1) Due to changes in the Group's reporting structure, the assets and liabilities of Manchester Airport Developments are included in the Manchester Airport balance sheet and as such segment assets and liabilities for Manchester Airport also includes those of Manchester Airport Developments.

Notes to the financial statements

for the year ended 31 March 2007

2. Business and geographical segments continued

2006

	Manchester Airport £m	Manchester Airport Developments £m	East Midlands Airport £m	Bournemouth Airport £m	Humberside Airport £m	Aviation Services £m	Other and consolidation £m	**Consolidated £m**
Revenue								
External sales	285.8	18.2	49.3	10.7	8.5	12.7	–	**385.2**
Inter-segment sales	4.1	15.3	0.2	–	–	5.3	(24.9)	**–**
Total revenue	289.9	33.5	49.5	10.7	8.5	18.0	(24.9)	**385.2**
Result								
Segment profit before restructuring costs	64.7	12.9	12.4	0.6	0.7	(0.2)	(3.4)	**87.7**
Other information								
Segment assets	985.6	204.0	268.5	32.3	22.1	5.1	75.8	**1,593.4**
Segment liabilities	(505.5)	(104.2)	(148.5)	(12.4)	(24.3)	(7.4)	2.0	**(800.3)**
Capital expenditure	74.5	10.8	9.0	1.3	1.3	0.4	(1.3)	**96.0**
Depreciation	59.1	0.6	7.2	0.5	0.7	–	(0.6)	**67.5**

3. Profit from operations

	2007 £m	2006 £m
Turnover	**385.5**	385.2
Wages and salaries *(Note 1)*	**69.3**	68.0
Social security costs	**6.5**	6.2
Pension costs	**7.2**	8.4
Employee benefit costs	**83.0**	82.6
Depreciation	**64.6**	67.5
Other operating charges	**155.0**	147.4
Profit before restructuring costs and impairment	**82.9**	87.7
Restructuring costs	**(2.8)**	(3.7)
Impairment of property, plant and equipment	**(5.1)**	–
Profit from operations	**75.0**	84.0

(Note 1) Wages and salary costs are disclosed before restructuring costs amounting to £2.8m (2006: £3.7m) which are reported separately. The restructuring costs relate to the reorganisation of senior management and supporting roles across The Manchester Airport Group. The costs included severance pay and exceptional pension contributions for those employees who have decided to take the option of early retirement.

Notes to the financial statements

for the year ended 31 March 2007

4. Employee information

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

	2007 Number	2006 Number
By location		
Manchester Airport	**2,263**	2,356
East Midlands Airport	**278**	283
Bournemouth Airport	**136**	142
Humberside Airport	**163**	163
	2,840	2,944

5. Directors' emoluments

Further details of directors' emoluments and a description of the Group's remuneration policy are set out on pages 44 to 46 in the Remuneration Report.

	2007 £m	2006 £m
Aggregate emoluments	**1.2**	1.4

An amount of £26,900 (2006: £47,773) was paid in money purchase schemes in respect of one (2006: two) director(s).

Retirement benefits are accruing to two directors (2007: two) under a defined benefit scheme.

	2007 £m	2006 £m
Highest paid director		
Aggregate emoluments and benefits	**0.4**	0.4
Defined benefit scheme:		
Accrued pension at end of year	**0.1**	0.1
Accrued lump sum at end of year	**0.2**	0.1

6. Finance income

	2007 £m	2006 £m
Bank interest receivable	**1.0**	1.1
Other interest receivable	**0.2**	–
	1.2	1.1

Notes to the financial statements

for the year ended 31 March 2007

7. Finance costs

	2007 £m	2006 £m
Interest payable on bank loans and overdrafts	**7.3**	6.7
Interest payable on finance leases	**1.0**	1.2
Interest payable on other borrowings	**18.9**	19.6
	27.2	27.5

8. Profit before taxation

	Note	2007 £m	2006 £m
Profit before taxation has been arrived at after charging / (crediting):			
Hire of plant and machinery – operating leases		**0.2**	0.2
Hire of other assets – operating leases		**10.6**	9.2
Release of capital based grants		**(1.5)**	(1.5)
Depreciation of property, plant and equipment:			
Owned assets		**64.2**	66.5
Leased assets		**0.4**	1.0
Impairment of property, plant and equipment	3	**5.1**	–
Profit on disposal of fixed assets		**(0.8)**	(0.2)
Increase in fair value of investment property		**(33.4)**	(31.0)
Decrease in fair value of available for sale investments		**1.5**	0.9
Employee benefit costs (excluding restructuring costs)		**83.0**	82.6
Restructuring costs	3	**2.8**	3.7
Auditors' remuneration:			
Audit of these financial statements		**0.1**	0.2
Amounts receivable by auditors and their associates in respect of:			
Other services relating to taxation		**0.1**	0.2
All other services		**–**	0.1

Notes to the financial statements

for the year ended 31 March 2007

9. Taxation

Analysis of charge in the period

	2007 £m	2006 £m
Current taxation		
UK Corporation tax on profits for the year	**12.4**	21.6
Adjustment in respect of prior year	**(1.9)**	–
Total current taxation	**10.5**	21.6
Deferred taxation		
Temporary differences arising in the period	**12.7**	4.8
Adjustment in respect of prior year	**(10.0)**	0.6
Total deferred taxation	**2.7**	5.4
Total taxation charge	**13.2**	27.0

Taxation on items charged to equity

	2007 £m	2006 £m
Deferred taxation on actuarial losses and gains	**(8.2)**	2.9
Deferred taxation on pension lump sum contribution	**5.3**	–
Deferred taxation on fair value of derivative financial instrument	**(0.4)**	–
	(3.3)	2.9

Factors affecting the taxation charge for the year

The total taxation for the year ended 31 March 2007 is lower than the standard rate of corporation taxation in the UK of 30%. The differences are explained below

	2007 £m	2006 £m
Profit on ordinary activities before taxation	**80.9**	87.7
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	**24.3**	26.3
Effect of:		
Expenditure not deductible for tax purposes	**0.8**	0.1
Adjustments to prior year taxation charge	**(11.9)**	0.6
	13.2	27.0

On 21 March 2007 it was announced that the standard rate of corporation tax will change to 28% and that there will be changes to capital allowance legislation, impacting on the calculation of the deferred tax provision of the group. These changes will be introduced for taxable periods beginning on or after 1 April 2008. For the purpose of the group accounts for 31 March 2007, the standard rate of corporation tax and capital allowance legislation prior to these changes has been applied.

Notes to the financial statements

for the year ended 31 March 2007

10. Dividends

	2007 £m	2006 £m
Amounts recognised as distributions to equity holders in the year:		
Dividend paid for the year ended 31 March 2006 of 12.24 pence (2005: 12.24 pence) per share	**25.0**	25.0
Proposed final dividend for the year ended 31 March 2007 of 12.24 pence (2006: 12.24 pence) per share	**25.0**	25.0

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

11. Earnings per share

Earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The group does not have any dilutive equity instruments in issue, therefore diluted earnings per share is the same as basic earnings per share.

	2007			2006		
	Earnings £m	Weighted average number of shares m	Per share amount Pence	Earnings £m	Weighted average number of shares m	Per share amount Pence
EPS attributable to ordinary shareholders	**67.7**	**204.3**	**33.14**	60.7	204.3	29.71

12. Property, plant and equipment

2007	Freehold land and property £m	Long leasehold property £m	Airport infrastructure £m	Plant, fixtures and equipment £m	Leased assets £m	Assets in the course of construction £m	Total £m
Cost							
At 1 April 2006	177.5	308.0	658.8	427.8	51.0	43.8	1,666.9
Additions	2.4	–	7.5	5.4	–	46.1	61.4
Reclassification	0.9	1.8	29.6	26.7	–	(60.3)	(1.3)
Disposals	(0.1)	–	–	(2.0)	–	–	(2.1)
At 31 March 2007	**180.7**	**309.8**	**695.9**	**457.9**	**51.0**	**29.6**	**1,724.9**
Depreciation							
At 1 April 2006	48.0	66.5	136.6	231.2	16.9	–	499.2
Charge for the period	2.5	10.1	17.2	34.8	–	–	64.6
Impairment	–	–	–	0.9	–	4.2	5.1
Disposals	–	–	–	(1.7)	–	–	(1.7)
At 31 March 2007	**50.5**	**76.6**	**153.8**	**265.2**	**16.9**	**4.2**	**567.2**
Net book value							
At 31 March 2007	**130.2**	**233.2**	**542.1**	**192.7**	**34.1**	**25.4**	**1,157.7**
At 31 March 2006	129.5	241.5	522.2	196.6	34.1	43.8	1,167.7

Notes to the financial statements

for the year ended 31 March 2007

12. Property, plant and equipment continued

2006	Freehold land and property £m	Long leasehold property £m	Airport infrastructure £m	Plant, fixtures and equipment £m	Leased assets £m	Assets in the course of construction £m	Total £m
Cost							
At 1 April 2005	198.6	299.3	596.9	423.1	88.3	28.8	1,635.0
Additions	5.3	0.1	1.8	4.9	–	83.9	96.0
Reclassification	(26.2)	14.7	63.8	44.1	(37.3)	(68.9)	(9.8)
Disposals	(0.2)	(6.1)	(3.7)	(44.3)	–	–	(54.3)
At 31 March 2006	**177.5**	**308.0**	**658.8**	**427.8**	**51.0**	**43.8**	**1,666.9**
Depreciation							
At 1 April 2006	39.9	62.3	116.4	219.8	47.8	–	486.2
Charge for the period	2.4	9.7	16.7	38.5	0.2	–	67.5
Reclassification	5.9	0.6	7.1	17.0	(31.1)	–	(0.5)
Disposals	(0.2)	(6.1)	(3.6)	(44.1)	–	–	(54.0)
At 31 March 2006	**48.0**	**66.5**	**136.6**	**231.2**	**16.9**	**–**	**499.2**
Net book value							
At 31 March 2006	**129.5**	**241.5**	**522.2**	**196.6**	**34.1**	**43.8**	**1,167.7**
At 31 March 2005	158.7	237.0	480.5	203.3	40.5	28.8	1,148.8

In accordance with IFRS 1, 'deemed cost' is the cost or valuation of assets as at 1 April 2005.

Depreciation and asset impairment

The Group has reviewed the asset lives and residual values in accordance with IAS 16. This review included a comparison to industry standards and a benchmarking exercise. Following this review the asset lives of a number of asset categories, principally relating to plant and machinery, were revised. Implemented in the year, this change led to a reduction in the depreciation charge of £4.1m. The Group's review of carrying values led to a write down of asset values of £5.1m being made in the year due to the value of certain assets becoming impaired.

Notes to the financial statements

for the year ended 31 March 2007

13. Investment properties

2007	Investment properties £m
Cost or valuation	
At 1 April 2006	261.6
Additions	6.0
Reclassification	1.3
Disposals	(0.2)
Revaluation	33.4
At 31 March 2007	**302.1**
Depreciation	
At 1 April 2006 and 31 March 2007	–
Net book value	
At 31 March 2007	**302.1**
At 31 March 2006	261.6

2006	Investment properties £m
Cost or valuation	
At 1 April 2005	221.3
Reclassification	9.3
Revaluation	31.0
At 31 March 2006	**261.6**
Depreciation	
At 1 April 2005 and 31 March 2006	**–**
Net book value	
At 31 March 2006	**261.6**
At 31 March 2005	221.3

Investment properties

The fair value of the Group's investment property at 31 March 2007 has been arrived at on the basis of a valuation carried out at that date by Drivers Jonas Chartered Surveyors, independent valuers not connected with the Group. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The property rental income earned by the Group from its investment property, amounted to £21.4m (2006: £18.4m). Direct operating expenses arising on the investment property in the period amounted to £1.5m (2006: £2.1m).

The Group has entered into a contract for the maintenance of its investment property which expires between two and five years and gives rise to an annual charge of £0.6m (2006: £0.5m).

14. Available for sale investments

	2007	2006
	£m	£m
Venture Capital investments		
Fair value		
At 1 April 2006	**–**	–
Additions in the period	**1.5**	0.9
Impairment	**(1.5)**	(0.9)
At 31 March 2007	**–**	–

15. Trade and other receivables

	2007	2006
	£m	£m
Trade debtors	**22.6**	27.0
Corporation tax recoverable	**0.5**	0.5
Other debtors	**2.7**	4.1
Prepayments and accrued income	**9.6**	9.6
	35.4	41.2

The average credit period taken on sales is 18 days (2006: 22 days). An allowance has been made for estimated irrecoverable amounts from trade debtors of £2.0m (2006: £1.8m). This allowance has been determined by identifying all specific external debts where it is more probable than not that they will not be recovered in full.

The directors consider that the carrying amount of trade and other debtors approximates to fair value.

Credit risk

The Group's credit risk is primarily attributable to its trade receivable balance. The amounts presented in the balance sheet are net of allowances for doubtful debts.

The Group has no significant concentration of credit risk, with exposure over a large number of counterparties and customers.

Notes to the financial statements

for the year ended 31 March 2007

16. Cash and cash equivalents

	2007 £m	2006 £m
Cash at bank and in hand	**3.6**	–
Short term deposits	**10.3**	94.8
	13.9	94.8

Short term deposits accrue interest at rates ranging between 5.28% and 5.3%. They mature within one week of the year end.

The carrying amount of these assets approximates their fair value.

The credit risk on short term deposits is limited because the counterparty banks have Fitch credit ratings of not less than F1.

17. Borrowings

	Notes	2007 £m	2006 £m
Overdraft		**0.6**	6.3
Bank loans	17	**99.2**	179.4
Other borrowings	18	**183.3**	189.1
Obligations under finance leases	19	**13.4**	15.9
		296.5	390.7
Borrowings are repayable as follows:			
In one year or less, or on demand			
Overdraft		**0.6**	6.3
Other borrowings		**6.3**	6.1
Obligations under finance leases		**3.0**	2.5
		9.9	14.9
In more than one year, but no more than two years			
Other borrowings		**6.8**	6.2
Obligations under finance leases		**3.4**	3.0
		10.2	9.2
In more than two years, but no more than five years			
Bank loans		**99.2**	179.4
Other borrowings		**60.8**	59.3
Obligations under finance leases		**7.0**	9.1
		167.0	247.8
In more than five years – due other than by instalments			
Other borrowings		**36.4**	36.4
		36.4	36.4
In more than five years – due by instalments			
Other borrowings		**73.0**	81.1
Obligations under finance leases		**–**	1.3
		73.0	82.4

Notes to the financial statements

for the year ended 31 March 2007

18. Bank loans

	2007	2006
	£m	£m
Unsecured bank revolving credit of £300.0m (2006: £325.0m) repayable on or before 14 July 2011 *(Note 1)*	**100.0**	180.0
Less: unamortised debt issue costs	**(0.8)**	(0.6)
	99.2	179.4

(Note 1) The unsecured syndicated bank revolving credit facility is subject to a floating interest rate linked of LIBOR + 50 basic points at a range of margins.

Notes to the financial statements

for the year ended 31 March 2007

19. Other borrowings

	2007 £m	2006 £m
Repayable other than by instalments (all secured)		
Wholly on 1 March 2027 at an interest rate of 9%	**11.0**	11.0
Wholly on 1 March 2015 at an interest rate of 9.5%	**5.0**	5.0
Wholly on 15 November 2016 at an interest rate of 9.75%	**3.6**	3.6
Wholly on 15 November 2017 at an interest rate of 9.375%	**9.0**	9.0
Wholly on 30 September 2015 at an interest rate of 11.5%	**3.6**	3.6
Wholly on 15 January 2011 at an interest rate of 11.25%	**37.6**	37.6
Wholly on 30 March 2018 at an interest rate of 11.125%	**4.2**	4.2
	74.0	74.0
Repayable by instalments		
In 50 half yearly instalments commencing 1 March 1993 at an interest rate of 10.75% (secured)	**6.1**	6.4
In 49 half yearly instalments commencing 1 June 1993 at an interest rate of 10.375% (secured)	**9.5**	10.0
In 49 half yearly instalments commencing 1 April 1993 at an interest rate of 10.375% (secured)	**14.9**	15.6
In 48 half yearly instalments commencing 1 August 1993 at an interest rate of 10.375% (secured)	**14.5**	15.3
In 48 half yearly instalments commencing 1 July 1994 at an interest rate of 9.5% (secured)	**14.2**	14.9
In 48 half yearly instalments commencing 1 September 1994 at an interest rate of 9.5% (secured)	**14.2**	14.9
In 48 half yearly instalments commencing 1 May 1994 at an interest rate of 9.5% (secured)	**12.8**	13.4
In 49 half yearly instalments commencing 1 May 1994 at an interest rate of 7.875% (secured)	**1.0**	1.1
In 30 half yearly instalments commencing 1 September 1995 at an interest rate of 9.125% (secured)	**1.6**	2.0
Secured loan from Tameside MBC at the Greater Manchester Metropolitan Debt Administration Fund rate (2007: 7.255% (2006: 7.47%)), repayable in 35 annual instalments from 31 March 1987	**18.9**	19.6
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 2007: 5.95%; 2006: 5.9%)	**1.3**	1.6
Non interest bearing volume related loan to Airport Petroleum Limited	**0.3**	0.3
	109.3	115.1
	183.3	189.1

Security of other borrowings

Loans amounting to £181.7m (2006: £187.2m) are secured by a debenture over all 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 2007

20. Finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Amounts payable under finance leases:	**15.7**	19.6	**13.4**	15.9
Within one year	**4.1**	3.9	**3.0**	2.5
In the second to fifth years inclusive	**11.6**	14.4	**10.4**	12.1
After five years	**–**	1.3	**–**	1.3
	15.7	19.6	**13.4**	15.9
Less: future finance charges	**(2.3)**	(3.7)		
Present value of lease obligation	**13.4**	15.9		
Less: amount due for settlement within 12 months			**(3.0)**	(2.5)
Amount due for settlement after 12 months			**10.4**	13.4

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 15 years. For the year ended 31 March 2007, the average effective borrowing rate was 6.4% (2006: 6.4%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All leases obligation are denominated in sterling.

The fair value of the Group's lease obligation approximates their carrying amount.

The Group's obligation under finance leases are secured by the lessors' charges over the leased assets.

Notes to the financial statements

for the year ended 31 March 2007

21. Financial instruments

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 2007 was as follows:

	2007	2006
	£m	£m
Fixed rate financial liabilities	**250.5**	261.1
Floating rate financial liabilities	**45.7**	129.3
Financial liabilities on which no interest is paid	**0.3**	0.3
	296.5	390.7

Financial liabilities shown above are all denominated in sterling.

Financial liabilities are shown net of unamortised issue costs amounting to £0.8m (2006: £0.6m).

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 £82.3m (2006: £87.5m) of bank loans as fixed rate financial liabilities as at 31 March 2007.

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

	2007	2006
Weighted average annual interest rate	**8.54%**	8.50%
Weighted average period for which interest rate is fixed	**6y 6m**	7y 4m

The weighted average period for non-interest bearing liabilities as at 31 March 2007 was 1 year (2006: 1 year).

The Group's interest rate swap, which has notionally been applied to bank loans, has a fixed interest rate of 5.5%. (2006: 5.5%)

(c) Maturity analysis of financial liabilities

The maturity profile of the carrying value of the Group's financial liabilities as at 31 March 2007 was as follows.

	2007	2006
	£m	£m
In one year or less, or on demand	**9.9**	14.9
In more than one year but not more than two years	**10.2**	9.2
In more than two years but not more than five years	**167.0**	247.8
In more than five years	**109.4**	118.8
	296.5	390.7

Notes to the financial statements

for the year ended 31 March 2007

21. Financial instruments continued

Undrawn committed borrowing facilities

As at 31 March 2007, the Group had an undrawn committed borrowing facility available amounting to £200.0m (2006: £145.0m).

	2007 Floating rate £m	2006 Floating rate £m
Expiring in more than two years	**200.0**	145.0
	200.0	145.0

Financial assets

Interest rate profile of financial assets

	2007 £m	2006 £m
Short term fixed rate, sterling deposits	**10.3**	94.8
	10.3	94.8

All financial assets are denominated in sterling.

The fixed rate assets held at the end of the year will earn interest at an annual equivalent rate of between 5.28% and 5.3%. Non-interest bearing assets primarily relate to long term trading debtors or current asset investments.

Notes to the financial statements

for the year ended 31 March 2007

21. Financial instruments continued

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 2007 and 2006. 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.

	2007		2006	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Bank loans and overdrafts	**(99.8)**	**(99.3)**	(185.7)	(186.6)
Trade debtors	**22.6**	**22.6**	27.0	27.0
Trade creditors	**(54.3)**	**(54.3)**	(48.7)	(48.7)
Other borrowings	**(183.3)**	**(228.4)**	(189.1)	(246.7)
Long term finance leases	**(13.4)**	**(13.4)**	(15.9)	(15.9)
	(328.2)	**(372.8)**	(412.4)	(470.9)
Cash at bank and in hand	**3.6**	**3.6**	–	–
Cash on short term deposit	**10.3**	**10.3**	94.8	94.8
	13.9	**13.9**	94.8	94.8
Net financial liabilities	**(314.3)**	**(358.9)**	(317.6)	(376.1)

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 £0.8m (2006: £0.6m), 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 2007

22. Trade and other payables

	2007	2006
	£m	£m
Trade creditors	**54.3**	48.7
Other taxation and social security	**2.1**	3.7
Other creditors	**0.9**	2.7
Accruals	**46.9**	38.5
Capital-based grants	**1.4**	1.4
	105.6	95.0

The directors consider that the carrying value of trade and other creditors approximates to their fair value.

23. Derivative financial instruments

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the accounting policies relating to derivative financial instruments.

	2007	2006
	£m	£m
Fair value of interest rate swap liability at 1 April	**(0.9)**	(0.8)
Movement in fair value	**1.2**	(0.1)
Fair value of interest rate swap liability at 31 March	**0.3**	(0.9)

The notional principal amount of the outstanding interest rate swap contract at 31 March 2007 was £82.3m (2006: £87.5m).

At 31 March 2007, the fixed interest rate payable on the swap is 5.5% (2006: 5.5%) and the variable interest receivable rate is based upon LIBOR.

Notes to the financial statements

for the year ended 31 March 2007

24. Retirement benefits

Defined contribution schemes

The Group operates two defined contribution schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contribution, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The total cost charged to income of £0.8m (2006: £1.0m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 March 2007, there were no contributions due in respect of the current reporting period that had not been paid over to the schemes (2006: £nil).

Defined benefit schemes

The Group operates four defined benefit pension schemes as follows:

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

Under the schemes, the employees are entitled to retirement benefits which vary according to length of service and final salary on attainment of retirement age.

Total employer's pension contributions for defined benefit schemes across the Group during the year ended 31 March 2007 amounted to £23.5m (2005: £15.1m), of which £17.8m (2006: £7.2m) represented a one off lump sum contribution. Actuarial gains or losses are recognised immediately in the Statement of Recognised Income and Expense.

The Greater Manchester Pension Fund (GMPF)

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 £17.0m (2006: £10.7m) 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 2004 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 2004 was £5,595m (last valuation in 2001: £6,261m). The funding level of the scheme as measured using the actuarial method of valuation was 93%

The principal assumptions used in the 2004 valuation were as follows:

Investment returns – Equities	6.7% per annum
Investment return – Bonds	4.9% per annum
Salary increases	4.4% per annum
Pensions increase/Price inflation	2.9% 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.

Notes to the financial statements

for the year ended 31 March 2007

24. Retirement benefits continued

Other schemes

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

- East Midlands International Airport Pension Scheme (EMIA) – 5 March 2005;
- East Riding Pension Fund – 31 March 2004; and
- Airport Ventures Pension Scheme – 1 August 2004.

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.

The numerical disclosure provided below for the defined benefit schemes is 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 IAS 19. The key assumptions used are as follows:

	GMPF			EMIA			East Ridings			Ventures		
	2007	2006	2005	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005
Rate of increase in salaries	**4.70%**	4.60%	4.40%	**4.70%**	4.60%	4.40%	**4.70%**	4.60%	4.40%	**4.70%**	4.60%	4.00%
Rate of increase of pensions in payment *(Note 1)*	**3.20%**	3.10%	2.90%	**3.20%**	3.10%	2.90%	**3.20%**	3.10%	2.90%	**3.20%**	3.10%	3.00%
Discount rate	**5.40%**	4.90%	5.40%	**5.40%**	4.90%	5.40%	**5.40%**	4.90%	5.40%	**5.40%**	4.90%	5.55%
Inflation assumption	**3.20%**	3.10%	2.90%	**3.20%**	3.10%	2.90%	**3.20%**	3.10%	2.90%	**3.20%**	3.10%	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 2007:

	Rate of return 2007 %	**Value 2007 £m**	Rate of return 2006 %	Value 2006 £m	Rate of return 2005 %	Value 2005 £m
Equities and property	**7.50%**	**246.7**	7.16%	212.4	7.60%	175.5
Bonds	**4.81%**	**52.5**	4.57%	45.4	4.85%	32.7
Other	**4.88%**	**22.0**	4.56%	27.4	4.80%	17.7
		321.2		285.2		225.9

Sensitivity analysis – mortality assumptions

The mortality assumptions used in performing the actuarial calculations included in these financial statements for the GMPF scheme liabilities are in line with those used in the last full actuarial valuation in 2004. Other GMPF members have used 2017 mortality tables for their 2007 valuations. If these had been used by MAG the deficit of the scheme would have been £6.3m higher than that shown in these financial statements, however the impact of this would be reduced by around 50% by the assumed effect of cash commutations taken by members.

Notes to the financial statements

for the year ended 31 March 2007

24. Retirement benefits continued

Details of the net pension liability by scheme is as follows:

	Total market value of assets £m	Present value of scheme liabilities £m	Deficit in the scheme £m
GMPF ▪			
2007	**279.2**	**(293.0)**	**(13.8)**
2006	250.8	(300.4)	(49.6)
2005	201.9	(251.9)	(50.0)
EMIA			
2007	**31.1**	**(41.2)**	**(10.1)**
2006	25.5	(40.8)	(15.3)
2005	17.6	(30.5)	(12.9)
East Ridings ▪			
2007	**8.4**	**(9.1)**	**(0.7)**
2006	6.4	(9.0)	(2.6)
2005	4.4	(7.2)	(2.8)
Airport Ventures			
2007	**2.5**	**(1.9)**	**0.6**
2006	2.5	(2.7)	(0.2)
2005	2.0	(2.2)	(0.2)
Total			
2007	**321.2**	**(345.2)**	**(24.0)**
2006	285.2	(352.9)	(67.7)
2005	225.9	(291.8)	(65.9)

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

Analysis of the amount charged / (credited) to operating profit

	GMPF		EMIA		East Riding		Ventures		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Current Service Cost of Defined Benefit Schemes	**6.7**	5.0	**1.9**	1.4	**0.4**	0.3	**–**	–	**9.0**	6.7
Past service cost	**1.1**	0.5	**–**	–	**–**	–	**(0.6)**	(0.1)	**0.5**	0.4
Expected return on pension scheme assets	**(17.1)**	(13.8)	**(1.8)**	(1.3)	**(0.5)**	(0.3)	**(0.2)**	(0.1)	**(19.6)**	(15.5)
Interest on pension scheme liabilities	**14.7**	13.6	**2.0**	1.7	**0.5**	0.4	**0.1**	0.1	**17.3**	15.8
Net amount charged against income	**5.4**	5.3	**2.1**	1.8	**0.4**	0.4	**(0.7)**	(0.1)	**7.2**	7.4

The above charge has been included in operating expenses.

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24. Retirement benefits continued

Movement in deficit during year

	GMPF		EMIA		East Riding		Ventures		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £'000**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Surplus / (Deficit) in scheme at beginning of year	**(49.6)**	(50.0)	**(15.3)**	(12.9)	**(2.6)**	(2.8)	**(0.2)**	(0.2)	**(67.7)**	(65.9)
Movement in year:										
Current service cost	**(6.7)**	(5.0)	**(1.9)**	(1.4)	**(0.4)**	(0.3)	**–**	–	**(9.0)**	(6.7)
Past service cost	**(1.1)**	(0.5)	**–**	–	**–**	–	**0.6**	0.1	**(0.5)**	(0.4)
Contributions	**17.1**	10.7	**4.9**	3.4	**1.5**	1.0	**–**	–	**23.5**	15.1
Other finance income/(expense)	**2.4**	0.2	**(0.2)**	(0.4)	**–**	(0.1)	**0.1**	–	**2.3**	(0.3)
Actuarial gain/(loss) in SORIE	**24.1**	(5.0)	**2.4**	(4.0)	**0.8**	(0.4)	**0.1**	(0.1)	**27.4**	(9.5)
Deficit in Scheme at end of the year	**(13.8)**	(49.6)	**(10.1)**	(15.3)	**(0.7)**	(2.6)	**0.6**	(0.2)	**(24.0)**	(67.7)

The total actuarial gain for the 2005 and 2004 periods was £10.9m and £13.3m respectively.

Amount recognised in the statement of recognised income and expense (SORIE)

	GMPF		EMIA		East Riding		Ventures		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Actual return less expected return on pension scheme assets	**1.7**	31.7	**(0.5)**	2.8	**0.1**	0.8	**(0.1)**	0.4	**1.2**	35.7
Experience gains/(losses) arising on scheme liabilities	**0.8**	(0.4)	**(0.2)**	2.1	**–**	–	**–**	–	**0.6**	1.7
Changes in assumptions underlying the present value of the scheme liabilities	**21.6**	(36.3)	**3.1**	(8.9)	**0.7**	(1.2)	**0.2**	(0.5)	**25.6**	(46.9)
Actuarial gain / (loss) recognised in SORIE	**24.1**	(5.0)	**2.4**	(4.0)	**0.8**	(0.4)	**0.1**	(0.1)	**27.4**	(9.5)

Notes to the financial statements

for the year ended 31 March 2007

24. Retirement benefits continued

Movement in present value of defined benefit obligations

	GMPF		EMIA		East Riding		Ventures		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	£m	£m	**£m**	£m	**£'000**	£m	**£m**	£m	**£m**	£m
1 April	**300.4**	251.9	**40.8**	30.5	**9.0**	7.2	**2.7**	2.2	**352.9**	291.8
Service cost	**7.8**	5.5	**1.9**	1.4	**0.4**	0.3	**(0.6)**	(0.1)	**9.5**	7.1
Benefits paid and employee contributions	**(7.5)**	(7.3)	**(0.6)**	0.4	**(0.1)**	(0.1)	**(0.1)**	–	**(8.3)**	(7.0)
Interest cost	**14.7**	13.6	**2.0**	1.7	**0.5**	0.4	**0.1**	0.1	**17.3**	15.8
Adjustment for valuation data	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Actuarial gains and losses	**(22.4)**	36.7	**(2.9)**	6.8	**(0.7)**	1.2	**(0.2)**	0.5	**(26.2)**	45.2
31 March	**293.0**	300.4	**41.2**	40.8	**9.1**	9.0	**1.9**	2.7	**345.2**	352.9

Movement in fair value of scheme assets

	GMPF		EMIA		East Riding		Ventures		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	£m	£m	**£m**	£m	**£'000**	£m	**£m**	£m	**£m**	£m
1 April	**250.8**	201.9	**25.5**	17.6	**6.4**	4.4	**2.5**	2.0	**285.2**	225.9
Expected return on scheme assets	**17.1**	13.8	**1.8**	1.3	**0.5**	0.3	**0.2**	0.1	**19.6**	15.5
Contributions	**17.1**	10.7	**4.9**	3.4	**1.5**	1.0	**–**	–	**23.5**	15.1
Benefits paid	**(7.5)**	(7.3)	**(0.6)**	0.4	**(0.1)**	(0.1)	**(0.1)**	–	**(8.3)**	(7.0)
Adjustment for valuation data	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Actuarial gains and losses	**1.7**	31.7	**(0.5)**	2.8	**0.1**	0.8	**(0.1)**	0.4	**1.2**	35.7
31 March	**279.2**	250.8	**31.1**	25.5	**8.4**	6.4	**2.5**	2.5	**321.2**	285.2

History of experience gains and losses

	GMPF		EMIA		East Riding		Ventures		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	£m	£m	**£m**	£m	**£'000**	£m	**£m**	£m	**£m**	£m
Difference between actual and expected returns on assets amount	**1.7**	31.7	**(0.5)**	2.8	**0.1**	0.8	**(0.1)**	0.4	**1.2**	35.7
% of scheme assets	**0.6%**	12.6%	**(1.6%)**	11.1%	**0.7%**	13.1%	**(3.0%)**	17.0%	**0.4%**	12.5%
Experience gains and losses on liabilities amount	**0.8**	(0.4)	**(0.2)**	2.1	–	–	–	–	**0.6**	1.7
% of scheme liabilities	**0.3%**	(0.1%)	**(0.5%)**	5.1%	**0.1%**	(0.2%)	**1.0%**	2.0%	**0.2%**	0.5%
Total amount recognised in SRIE	**24.1**	(5.0)	**2.4**	(4.0)	**0.8**	(0.4)	**0.1**	(0.1)	**27.4**	(9.5)
% of scheme liabilities	**8.2%**	(1.7%)	**5.9%**	(9.7%)	**9.2%**	(4.3%)	**5.0%**	(5.0%)	**7.9%**	(2.7%)

The estimated amount of contributions expected to be paid to the schemes during the current financial year is £5.1m.

Notes to the financial statements

for the year ended 31 March 2007

25. Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

	Accelerated capital allowances £m	Investment properties and operational assets carried at deemed cost £m	Retirement benefit obligations £m	Tax losses £m	Fair value acquisition adjustment £m	Short term timing differences £m	Total £m
At 1 April 2006	49.6	148.3	(22.1)	(1.2)	8.2	(4.8)	178.0
Charge to income	(4.3)	2.9	4.0	(0.1)	–	0.2	2.7
Charge to equity	–	–	2.9	–	–	0.4	3.3
At 31 March 2007	**45.3**	**151.2**	**(15.2)**	**(1.3)**	**8.2**	**(4.2)**	**184.0**
At 1 April 2005	47.4	146.3	(19.8)	(1.1)	8.2	(5.5)	175.5
Charge to income	2.2	2.0	0.6	(0.1)	–	0.7	5.4
Charge to equity	–	–	(2.9)	–	–	–	(2.9)
At 31 March 2006	**49.6**	**148.3**	**(22.1)**	**(1.2)**	**8.2**	**(4.8)**	**178.0**

Deferred tax assets and liabilities have not been offset in the disclosure above. The following is the analysis of the deferred tax balance for financial reporting purposes:

	2007 £m	2006 £m
Deferred tax liabilities	**(204.7)**	(206.1)
Deferred tax assets	**20.7**	28.1
	(184.0)	(178.0)

At the balance sheet date, the Group had unused tax losses of £6.6m (2006: £6.6m) available for offset against future profits. A deferred tax asset of £1.3m (2006: £1.2m) has been recognised in respect of £4.3m (2006: £4.0m) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of £2.3m (2006: £2.6m) due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

26. Other non-current liabilities

	2007 £m	2006 £m
Accruals and deferred income	**7.0**	7.1
Capital-based grants	**17.4**	18.9
	24.4	26.0

27. Share capital

	Number (m)	**£m**
Authorised, allotted, called up and fully paid		
204,280,000 ordinary shares of £1 each	204.3	**204.3**
At 31 March 2006 and 31 March 2007	204.3	**204.3**

Notes to the financial statements

for the year ended 31 March 2007

28. Reserves

	Retained earnings £m
At 1 April 2006	588.8
Actuarial gains on retirement benefit liabilities	27.4
Deferred tax on retirement benefits actuarial movements	(8.2)
Deferred tax on pension lump sum contribution	5.3
Changes in fair value of cash flow hedges	1.2
Deferred tax on changes in fair value of cash flow hedges	(0.4)
Profit for the year after dividends	42.7
At 31 March 2007	**656.8**

Reconcilliation of movements in shareholders' funds	**2007 £m**	2006 £m
Opening shareholders' funds	**793.1**	764.1
Total recognised income for the year	**93.0**	54.0
Dividends paid in the year	**(25.0)**	(25.0)
Equity shareholders' funds as at 31 March	**861.1**	793.1

29. Capital commitments

	2007 £m	2006 £m
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**27.1**	13.9

30. Contingent liabilities

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.

A contingent liability exists in respect of claims that have been lodged against the Group under Part 1 of the Land Compensation Act (1973) from individual property owners in respect of alleged loss of property value arising from the development and use of new or extended airport runways. The legislation provides for claims to be made in a period between one and seven years after the new or extended runways come into use. To date none of the claims has proceeded to the Lands Tribunal for determination. The Group will defend any proceedings in respect of these claims and, whilst the outcome of these claims is currently uncertain, it is the directors' opinion based on legal and property advice that no future material cost will be incurred.

Notes to the financial statements

for the year ended 31 March 2007

31. Operating lease arrangements

At 31 March 2007 the Group has annual commitments under non-cancellable operating leases which fall due as follows:

	2007		2006	
	Land £m	**Other £m**	Land £m	Other £m
Expiring within one year	**–**	–	–	0.1
Expiring between two and five years inclusive	**0.1**	**0.1**	0.1	0.2
Expiring in over five years	**10.6**	**–**	10.5	–
	10.7	**0.1**	10.6	0.3

The total commitment due is principally one land lease with a duration in excess of 50 years. The amount payable in the current review period for this lease is £7.2m per annum. The Group receives income from property leases, which are typically for a duration of 3-10 years and subject to periodic rent reviews.

32. 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 £89.5m (2006: £92.2m). The Manchester Airport Group PLC made loan repayments of £2.7m (2006: £5.4m) to MCC during the year and paid interest of £9.3m (2006: £9.8m).

Included in external charges are charges for rent and rates amounting to £22.3m (2006: £21.1m) and other sundry charges of £0.3m (2006: £0.5m). The majority of these amounts are due to MCC. The remainder are collected by MCC and distributed to other local authorities.

Other related party transactions

Seedcorn Investment Management Limited is a Company owned by Paul Barraclough, a director of Worknorth Limited and Worknorth II Limited for part of the year. During this time Seedcorn Investment Management Limited charged Worknorth II Limited £49,000 (2006: £105,000) for services provided on normal contractual terms. As at 31 March 2007, the balance owing to Seedcorn Investments amounted to £nil (2005: £9,632).

North Lincolnshire District Council ('NLDC') are minority shareholders of Humberside International Airport Limited. During the year NLDC charged £0.3m (2006: £0.3m) for rates to Humberside International Airport Limited.

As at the balance sheet date the amount of loans outstanding owed to NLDC was £1.3m (2006: £1.6m). Humberside International Airport Limited made loan repayments of £0.3m (2006: £0.3m) to NLDC during the year and paid interest of £0.8m (2006: £1.0m).

Notes to the financial statements

for the year ended 31 March 2007

33. Reconciliation of net cash flow to movement in net debt

	2006 £m	Cash flow £m	Other non-cash movements £m	**2007 £m**
Cash at bank and in hand	–	3.6	–	**3.6**
Cash on short term deposit	94.8	(84.5)	–	**10.3**
Cash and cash equivalents disclosed on the balance sheet	94.8	(80.9)	–	**13.9**
Overdrafts	(6.3)	5.7	–	**(0.6)**
Total cash and cash equivalents (including overdrafts)	88.5	(75.2)	–	**13.3**
Current debt	(8.6)	(0.7)	–	**(9.3)**
Non-current debt	(375.8)	89.0	0.2	**(286.6)**
Net debt	(295.9)	13.1	0.2	**(282.6)**

Independent Auditors' Report to the Members of The Manchester Airport Group PLC

We have audited the parent company financial statements of The Manchester Airport Group PLC for the year ended 31 March 2007 which comprise the company Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. In addition to our audit of the financial statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare (in addition to that required to be prepared) as if the company were required to comply with the requirements of Schedule 7A to the Companies Act 1985.

We have reported separately on the group financial statements for The Manchester Airport Group PLC for the year ended 31 March 2007.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 49.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and, under the terms of our engagement letter, to audit the part of the Directors' Remuneration Report that is described as having been audited.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Review of Operations and the Financial Review that is cross referred from the Results, review of business and future developments section of the Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited 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 parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report is consistent with the financial statements; and
- the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 7A to the Companies Act 1985, as if those requirements were to apply to the company.

KPMG LLP
Chartered Accountants
Registered Auditor
14 June 2007

Accounting policies

Accounting Policies

These financial statements are prepared on a going concern basis and in accordance with applicable accounting standards in the United Kingdom and the Companies Act 1985.

The accounting policies that the Company has adopted to determine included in respect of the material items shown in the balance sheet, and also to determine the profit and 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.

Inter-company Accounting

Inter-company balances are stated at historic cost.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

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

	Years
Plant and machinery	5 – 30
Motor vehicles	3 – 7

Fixed asset investments

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

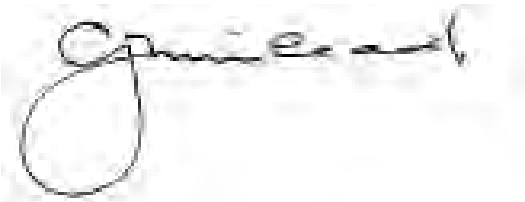
Company balance sheet

as at 31 March 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Tangible assets	3	**0.2**	0.4
Investments	4	**359.5**	349.9
		359.7	350.3
Current assets			
Debtors	5	**26.6**	210.2
Cash at bank and in hand	6	**12.6**	95.6
		39.2	305.8
Creditors: amounts falling due within one year	7	**–**	(7.3)
Net current assets		**39.2**	298.5
Total assets less current liabilities		**389.9**	648.8
Creditors: amounts falling due after more than one year	8	**(189.9)**	(421.1)
Net assets		**209.0**	227.7
Capital and reserves			
Called up share capital	9	**204.3**	204.3
Profit and loss account	10	**4.7**	23.4
Equity shareholders' funds		**209.0**	227.7

The financial statements on pages 85 to 90 were approved by the Board of Directors on 14 June 2007 and signed on its behalf by:

Alan Jones **Chairman**



Geoff Muirhead **Group Chief Executive**

Notes to the financial statements

for the year ended 31 March 2007

1. Auditors' remuneration

	2007	2006
	£m	£m
Auditors' remuneration:		
Audit of these financial statements	**0.1**	0.1
Amounts receivable by auditors and their associates in respect of:		
Other services relating to taxation	**0.1**	0.1

2. Profit on ordinary activities after taxation for the Company

As permitted by Section 230 of the Companies Act, the Company's profit and loss account has not been included in these financial statements. As showing in Note 11, the loss (2006: profit) attributable to the shareholders includes a loss of £18.7m (2006: profit of £7.2m) before dividends, dealt with in the financial statements of the Company.

3. Tangible fixed assets

	Plant and machinery, motor vehicles £m
Cost	
At 1 April 2006	0.6
Disposals	(0.2)
At 31 March 2007	**0.4**
Depreciation	
At 1 April 2006	0.2
Charge for the year	0.1
Disposals	(0.1)
At 31 March 2007	**0.2**
Net book value	
At 31 March 2007	**0.2**
Net book value	
At 31 March 2006	0.4

4. Fixed asset investments

	Subsidiary undertakings £m
Cost and net book value	
At 1 April 2006	349.9
Additions	9.6
At 31 March 2007	**359.5**

Particulars of principal subsidiary undertakings are listed on page 88, which forms part of these financial statements.

Notes to the financial statements

for the year ended 31 March 2007

5. Debtors

	2007 £m	2006 £m
Other debtors	**0.4**	1.3
Amounts due from subsidiary undertakings	**26.2**	207.3
Prepayments and accrued income	**–**	1.6
	26.6	210.2

6. Cash at bank and in hand

	2007 £m	2006 £m
Cash accessible on demand	**2.3**	0.8
Short term deposits	**10.3**	94.8
	12.6	95.6

7. Creditors: amounts falling due within one year

	2007 £m	2006 £m
Trade creditors	**–**	0.6
Amounts owed to subsidiary undertakings	**–**	1.2
Accruals and deferred income	**–**	5.5
	–	7.3

8. Creditors: amounts falling due after more than one year

	2007 £m	2006 £m
Bank loans	**99.2**	179.4
Amounts owed to subsidiary undertakings	**90.7**	241.7
	189.9	421.1

Notes to the financial statements

for the year ended 31 March 2007

9. Share capital

	Number (m)	£m
Authorised, allotted, called up and fully paid		
204,280,000 ordinary shares at £1 each	204.3	204.3
At 31 March 2006 and 31 March 2007	**204.3**	**204.3**

10. Reserves

	Profit and loss account £m
At 1 April 2006	23.4
Loss for the year	(18.7)
At 31 March 2007	**4.7**

11. Reconciliation of movements in equity shareholders' funds

	2007 £m
Company	
Loss for the financial year	(18.7)
Dividends received from subsidiary undertakings	25.0
External dividends paid	(25.0)
Net increase in equity shareholders' funds	**(18.7)**
Opening equity shareholders' funds as previously reported	227.7
Closing equity shareholders' funds	**209.0**

12. Contingent liabilities

The Company has entered into a cross guarantee, up to a maximum of £20.0m in aggregate, for any bank advances made to certain subsidiary undertakings in existence as at 31 March 2007. No loss is expected to arise from this arrangement.

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	12% non-voting redeemable preference shares	100%	–
	Ordinary £1 shares	82.71%	–
	Deferred ordinary £1 shares	82.71%	–
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 2007 will be appended to the Company's next annual return.

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 and Airport Petroleum 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

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The Manchester Airport Group PLC
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Registered Number 4330721