The Manchester Airport Group PLC

# Annual Report & Accounts **2005-06**

The Manchester Airport Group ('MAG' or 'the Group') is the second largest airport group in the UK and comprises Manchester – the largest UK airport outside London, Nottingham East Midlands – a major regional base for low cost, charter and cargo airlines and 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, security, fire fighting, engineering, and motor transport services.

MAG is owned by The Council of the City of Manchester and the nine neighbouring local authorities that comprise Greater Manchester.

MAG aims to communicate openly with its various stakeholders. This annual report is part of the communications process. Further information on MAG operating divisions, policies and strategies can be found on the following websites:

www.magworld.co.uk

Manchester Airport
www.manchesterairport.co.uk

Nottingham East Midlands Airport
www.nottinghamema.com

Bournemouth Airport
www.flybournemouth.com

Humberside Airport
www.humberside-airport.co.uk

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

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

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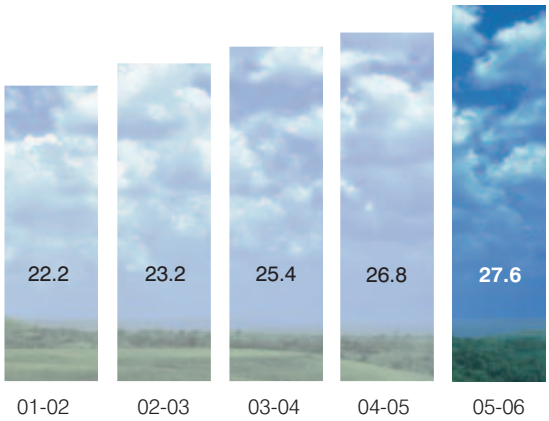
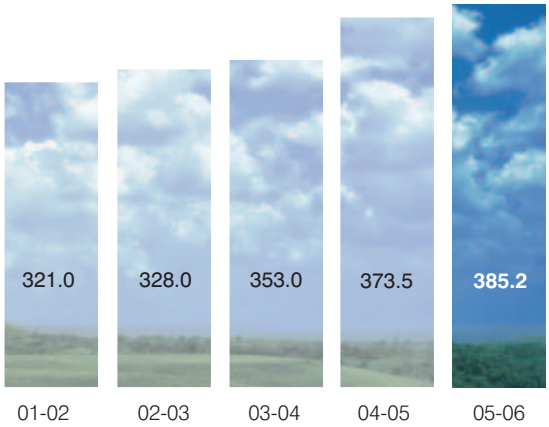
# Financial Highlights

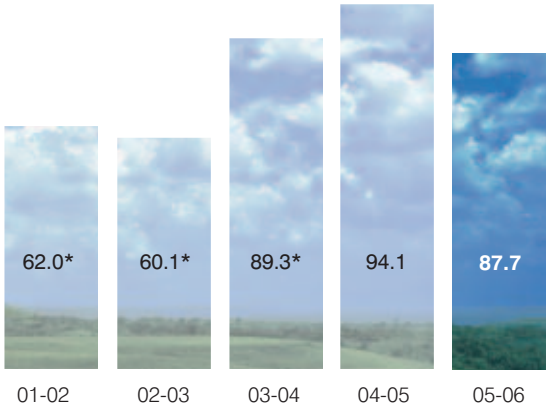
Passenger numbers (m)



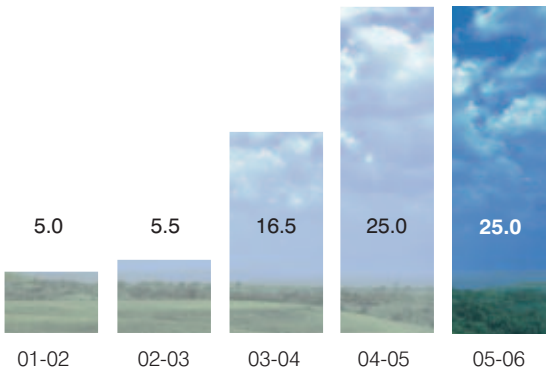

Revenue (£m)




Operating Profit (before restructuring costs) (£m)




Dividends recommended (£m)




*Under UK GAAP

# Chairman's Statement

**The results for this year reflect a period during which the business has experienced an increasingly challenging economic environment and a significant increase in competition from other airports. In this context the business has performed reasonably well with traffic up 3%, albeit with profit before tax down 13% on the prior year. A full level of reinvestment has been sustained across the Group. It has been decided to maintain the dividend recommended to Shareholders, reflecting ongoing confidence in future operations.**

We continue to be committed to running first-class airports and introducing innovative improvements, including new processes for check-in, together with a strong concentration on security where requirements and challenges continue to grow.

MAG has a comprehensive corporate responsibility policy applicable to all its business activities. Our airports continue to bring very significant economic and social benefits to the communities they serve. We remain well aware that aviation has some adverse environmental impacts and we will continue to further develop policies designed to minimise these.

Looking ahead, growth in passenger traffic is anticipated at all of the Group's airports in competitive trading conditions. The increase in cost of fuel, utilities and security affects our airline customers and our travelling customers at the same time as it affects us. Our response is to strive to make our product more attractive, our response to customer needs well-tuned, and to avidly pursue improvements in efficiency.

We are entering a period of investment to ensure that our fixed resources are suitable to meet the growth that will be envisaged. This will be done with an emphasis on innovative ways of using our existing and new resources and optimising the services we offer.

The environment and the developing strategies in this competitive scenario make challenging demands on all our employees. I would like to take this opportunity to thank all of them for their dedication and support during last year and as we move forward.

**Alan Jones**
*Chairman*
8 June 2006

# Delivering our values

MAG's mission is *to be simply better*.
Together with six explicit goals and five core values, it lays the foundations on which the Group operates.

# Our Mission

Our goals map out the route to becoming 'simply better'. Our values establish what MAG stands for.

Coupled with clear strategic objectives, they provide direction for the Group and spell out the unequivocal commitment the Group makes to its customers, partners, shareholders, employees, communities and other stakeholders.

The mission – which has been embedded into the Group's culture – is set out below:

## Our Mission

*To be simply better*

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

## Our Goals

*The Group's key, ongoing objectives*

- To operate to the highest possible standards of safety and security
- To be a good employer – ensuring that each individual understands what is expected of them and is treated fairly
- To provide outstanding customer service and value
- To deliver superior financial performance
- To simplify decision-making to continuously improve our performance
- To be a good neighbour – concerned for the community and the environment.

## Our Values

*The core principles that define the way the Group works*

- Colleagues – We will value, empower and invest in our colleagues to enable them to deliver their best
- Customer Service – Our passion is service. We will anticipate our customers' needs and deliver service that will delight all our customers
- Innovation – Creativity is the key to business success and we will continuously challenge the status quo, simplifying processes and doing things differently
- Integrity – We will strive to earn a reputation for integrity, demonstrating the highest standards of personal and professional ethics, always being open and honest and taking responsibility for our actions
- Social Commitment – We will be a model of corporate citizenship, contributing to the social and economic wellbeing of our local communities and caring for the environment.

# Summary

Group passenger traffic increased by 3.0% against the previous year. This increase was a result of growth at Manchester and Bournemouth Airports more than offsetting declines at Nottingham and Humberside. The combination of strong growth in long haul traffic at Manchester and low cost short haul growth offset ongoing declines in European charter traffic. At Bournemouth passenger traffic has grown by over 80% year on year which has mitigated the impact of increasing competition on the performance of both Nottingham and Humberside.

Turnover is also up 3.1% at £385.2m. Strong performance has been achieved in retail activities despite adverse high-street conditions, which together with an improving property portfolio performance have mitigated aviation yield declines. Operating cost increases have, however, offset turnover growth during the period. The principal areas of increase have been in security, pensions and energy costs. As a result of this the Group has increased its efforts in terms of driving operational efficiencies and recently announced a management restructure that will see a significant reduction in management overheads over the coming twelve months.

Capital expenditure has been relatively modest across the Group in recent years but has increased in line with forecast during the current year to meet capacity needs. Significant investment is still envisaged, albeit via ever more innovative ways of delivering the passenger travel experience. This is an area of ongoing focus for the business in order to deliver optimal returns from the Group assets.

## Manchester Airport

Manchester Airport increased passenger numbers by 3.5% to a record total of 22.1m.

During the year the low cost sector saw 43% growth in passengers. Jet2.com added new services to Chambery and Palma, Monarch Scheduled commenced flights to Mahon, Almeria and Naples and Flybe added Exeter and Belfast to the network. Ryanair linked Shannon to Manchester, Air Berlin started a twice weekly service to Stansted, Hapag Lloyd Express inaugurated Hanover and Sky Europe added Bratislava and Salzburg.

European charter services again recorded a decline over the year, however performance was slightly more favourable than the overall trend in the UK charter market. New charter services included routes to Nassau and Mombasa (First Choice), Bolzano (Austrian Airlines), Fort Lauderdale (Thomson Fly) and Marsa Alam (Thomas Cook).

Long haul services continued to grow with new routes starting to Tehran and Abu Dhabi and extra frequency and capacity added to North American, Caribbean and Middle Eastern destinations.

| **Key Facts** | |
|---|---|
| Opened | 1938 |
| Runways | 2, both 3,048m in length |
| Terminals | 3 |
| Airlines | 100 |
| Destinations | 213 |
| Air transport movements | 233,817 |
| Passengers | 22.1 million |
| Total retail space | 365,000 sq ft |
| Employees | 2,246 |
| Air cargo | 150,200 tonnes |

## Nottingham East Midlands Airport

Nottingham East Midlands Airport ('NEMA') consolidated its position as the main low cost airport in the Midlands with passenger numbers at 4.2m and was voted the best UK airport at the 2005 British Travel Awards.

At the end of the year Ryanair joined bmibaby and easyJet in establishing a new base at the airport. Ryanair introduced two Boeing 737-800 aircraft servicing ten new routes to destinations in France, Poland, Germany and Northern Ireland. bmibaby also added capacity at the end of the year, bringing an extra 737 to the airport to serve Paris. The availability of these new routes and consolidation of existing routes will ensure a strong start to the new financial year.

NEMA continues to have a major programme of charter services carrying 1.5m passengers per annum and has grown its share of the UK market over the last year.

NEMA also has the largest pure cargo (freight and mail) operation in the UK and handled 294,400 tonnes of cargo in the year, up 2.3% over the previous financial year. The principal operators are DHL, UPS, TNT and Royal Mail.

| **Key Facts** | |
|---|---|
| Opened | 1965 |
| Runways | 1, length 2,893m |
| Terminals | 1 |
| Airlines | 31 |
| Destinations | 90 |
| Air transport movements | 56,200 |
| Passengers | 4.2 million |
| Total retail space | 53,306 sq ft |
| Employees | 271 |
| Air cargo | 294,400 tonnes |

## Bournemouth Airport

This year Bournemouth Airport has experienced growth of 82.5% to 916,000 passengers. The low cost sector has been very successful with Ryanair approaching its 10th year of operation out of Bournemouth in addition to new services from Thomsonfly (including Tenerife, Pisa and Alicante), easyJet (Geneva) and Air Berlin (Paderborn). The inclusive tour and charter market has performed better than anticipated with Palmair now approaching their 50th year of operation from Bournemouth and First Choice, TUI and Thomas Cook increasing capacity to destinations such as Faro, Tenerife and Palma.

| Key Facts | |
|---|---|
| Opened | 1944 |
| Runways | 1, length 2,272m |
| Terminals | 1 |
| Airlines | 20 |
| Destinations | 65 |
| Air transport movements | 12,794 |
| Passengers | 916,000 |
| Total retail space | 6,000 sq ft |
| Employees | 134 |
| Air cargo per year | 11,900 tonnes |


## Humberside Airport

Humberside has performed extremely well during a challenging year particularly from increased competition in the region. Growth in Humberside's scheduled international and domestic routes has been offset by a decline in its charter business. Freight volume grew by over 50% following the further expansion of Icelandic fish imports for major food producers located in the vicinity of the Airport. The year also ended on a highly positive note with the attraction of new flight programmes by Ryanair to Dublin and Excel Airways launching new services for summer 2006 to Rhodes, Paphos, Lanzarote, Alicante, Tenerife, Dalaman, the Algarve, Majorca and Malaga.


| Key Facts | |
|---|---|
| Opened | 1974 |
| Runways | 1, length 2,200m |
| Terminals | 1 |
| Airlines | 18 |
| Destinations | 30 |
| Air transport movements | 12,500 |
| Passengers | 464,000 |
| Total retail space | 6,700 sq ft |
| Employees | 154 |
| Air cargo per year | 2,700 tonnes |

## Aviation Services

In the past year Ringway Handling has focused on improving operational efficiencies by targeting airlines operating outside the normal operational peaks and thereby increasing volume/turnaround from existing staffing resource. Contracts with Emirates, KLM, Fed Ex and Mahan Air were successfully secured during the period. In addition, the contract with MyTravel has been renewed.

## Property

During 2005/06, property rental income increased by 9.0% to £41.0m following a series of rent reviews, lease renewals and the completion of pre-let development schemes. The MAG estate under MADL management amounts to a £261.6m investment portfolio.

The most notable development schemes completed during the year were the 90,000 square feet bonded warehouse for Alpha and a 200 bedroom hotel operated by Travelodge (the largest Travelodge hotel outside London) which were both developed at Manchester. Ongoing development activity includes a cargo warehouse for Royal Mail (at Nottingham) and various infrastructure development works aligned to the Group's core operational needs.

## Outlook

The Group has made ongoing progress over the year with growth across its various business operations. However, there are major challenges ahead as competition for passenger growth and market share continues to increase. In response to these issues MAG has realigned its management structure, which will ensure customer focus, innovation and process improvement pervade all future decisions. The next twelve months will be a period of transformation, but on the back of this, management have every confidence that MAG will be strongly positioned to drive the business forward strongly and profitably in the future.

## Summary

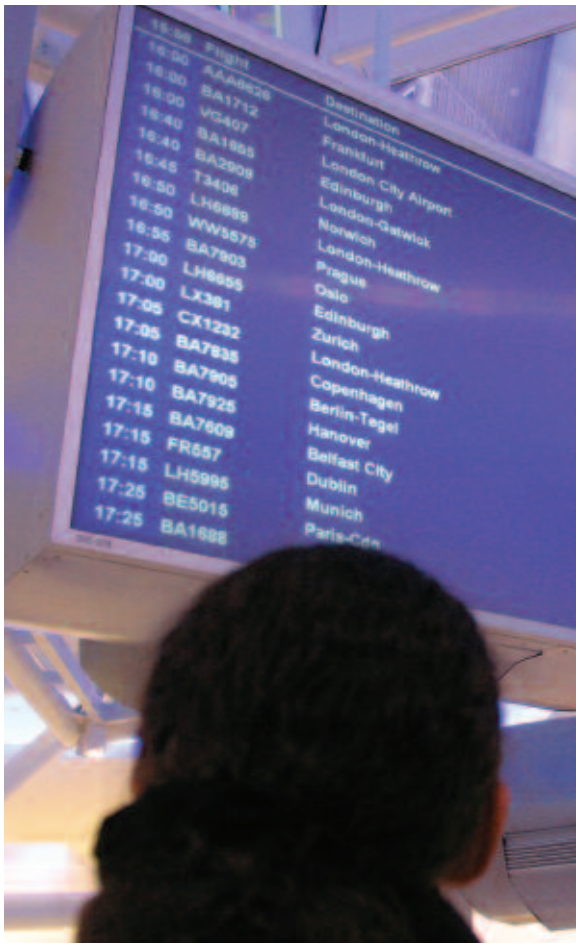
Group passenger traffic increased by 3.0% during the year taking passenger numbers to 27.6m (2005: 26.8m). Revenue for the year also increased by 3.1% to £385.2m (2005: £373.5m), producing an operating profit of £87.7m (2005: £94.1m), which represents a 6.8% decline on 2005. The proposed ordinary dividend to Shareholders has been held at £25.0m (2005: £25.0m).

The increase in asset values arising from the revaluation of investment properties carried out as at 31 March 2006 combined with new property developments, has resulted in a 14% uplift in the value of the non core property portfolio compared to the prior period, adding £31.0m to profit before taxation.

Capital expenditure has returned to 'historic norm' levels which when combined with the divided payment and lower profits has resulted in debt increasing by £23.8m during the year. The latest traffic forecasts for the Group show continued growth in passengers, which will necessitate ongoing major investments in additional airport capacity.

**Summary of the year's results (£m)**

| | **2006** | 2005 | Change% |
|---|---|---|---|
| Revenue | **385.2** | 373.5 | 3.1% |
| Operating profit before restructuring costs | **87.7** | 94.1 | (6.8%) |
| Profit after tax | **60.7** | 74.0 | (18.0%) |
| Dividends recommended | **25.0** | 25.0 | |
| Cash used in investing activities | **93.4** | 37.8 | |
| Increase / (decrease) in net debt | **23.8** | (50.9) | |
| Net debt | **295.9** | 272.1 | |
| Equity shareholder's funds | **793.1** | 764.1 | |




## Passenger Traffic

The 3.0% growth in passenger numbers relates to increases at Manchester and Bournemouth offset by declines at Nottingham and Humberside. The year has seen continued growth in low cost carriers and long haul scheduled and charter services. These increases have been partially offset by the ongoing decline in short haul and charter traffic reflecting the continued market-wide shift in this direction.

## Cargo volume

Cargo volumes increased by 0.8% to 459.2m tonnes (2005: 455.6 tonnes) for the year. The Group's main cargo operation at Nottingham East Midlands showed an increase of 2.3% on last year's volumes due to the strengthening of its mail services and the operation of larger aircraft with capacity for higher freight volumes.

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

| | **2006** | 2005 | Change% |
|---|---|---|---|
| Passengers by airport: | | | |
| Manchester | **22,060** | 21,324 | 3.5% |
| Nottingham East Midlands | **4,154** | 4,436 | (6.4%) |
| Bournemouth | **916** | 502 | 82.5% |
| Humberside | **464** | 534 | (13.1%) |
| | **27,594** | 26,796 | 3.0% |
| Passengers by airline type: | | | |
| Charter short haul | **8,881** | 9,686 | (8.3%) |
| Charter long haul | **1,844** | 1,554 | 18.7% |
| Scheduled short haul | **14,124** | 13,045 | 8.3% |
| Scheduled long haul | **2,689** | 2,455 | 9.5% |
| Private & miscellaneous | **56** | 56 | – |
| | **27,594** | 26,796 | 3.0% |

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

| | **2006** | 2005 | Change% |
|---|---|---|---|
| Manchester | **150.2** | 154.6 | (2.8%) |
| Nottingham East Midlands | **294.4** | 287.8 | 2.3% |
| Bournemouth | **11.9** | 11.5 | 3.7% |
| Humberside | **2.7** | 1.7 | 58.8% |
| | **459.2** | 455.6 | 0.8% |

## Trading performance

Group revenue has increased in the year by 3.1% to £385.2m (2005: £373.5m). Aviation income per passenger has declined by 1.2% due to the trend towards low cost travel.

Retail yields (income per passenger) improved 3.5% in the year, despite the weak general retail environment. Car parking yields were relatively flat and income from the property portfolio improved by 9.0%.

Group EBITDA has decreased by 4.5% to £155.2m (2005: £162.6m) reflecting the fact that operating cost increases have outstripped Revenue growth. The EBITDA margins at Manchester have stayed constant at 44%, however, at NEMA we have seen a deterioration from 46% to 40%.


**Analysis of Group revenue (£m)**

| | | 2006 | 2005 | Change% |
|---|---|---|---|---|
| Aviation income | | **184.5** | 181.3 | 1.8% |
| Retail concessions | | **65.6** | 61.7 | 6.3% |
| Car parking income | | **45.1** | 44.3 | 1.8% |
| Property and related income | | **41.0** | 37.6 | 9.0% |
| Other income | | **49.0** | 48.6 | 0.8% |
| | | **385.2** | 373.5 | 3.1% |
| Aviation income per passenger | £ | **6.69** | 6.77 | (1.2%) |
| Retail income per passenger | £ | **2.38** | 2.30 | 3.5% |
| Car parking income per passenger | £ | **1.63** | 1.65 | (1.2%) |

**Summary of trading performance by location**

| | 2006 | 2005 | Change% |
|---|---|---|---|
| **Revenue (£m)** | | | |
| Manchester Airport | **289.9** | 278.9 | 3.9% |
| Nottingham East Midlands Airport | **49.5** | 51.9 | (4.6%) |
| Bournemouth Airport | **10.7** | 8.5 | 25.9% |
| Humberside Airport | **8.5** | 8.8 | (3.4%) |
| Property | **33.5** | 27.8 | 20.5% |
| Other businesses and consolidation | **(6.9)** | (2.4) | |
| | **385.2** | 373.5 | 3.1% |
| **EBITDA 1 (£m)** | | | |
| Manchester Airport | **126.5** | 131.9 | (4.1%) |
| Nottingham East Midlands Airport | **19.6** | 23.9 | (18.0%) |
| Bournemouth Airport | **1.1** | 1.2 | (8.3%) |
| Humberside Airport | **1.4** | 1.8 | (22.2%) |
| Property | **13.5** | 13.1 | 3.7% |
| Other businesses and consolidation | **(6.9)** | (9.3) | |
| | **155.2** | 162.6 | (4.5%) |
| **Profit before restructuring costs (£m)** | | | |
| Manchester Airport | **64.8** | 71.8 | (9.7%) |
| Nottingham East Midlands Airport | **12.4** | 16.6 | (25.3%) |
| Bournemouth Airport | **0.6** | 0.7 | (14.3%) |
| Humberside Airport | **0.7** | 1.3 | (46.2%) |
| Property | **12.9** | 12.2 | 5.7% |
| Other businesses and consolidation | **(3.7)** | (8.5) | |
| | **87.7** | 94.1 | (6.8%) |

1 The EBITDA is defined as earnings before interest, taxation and depreciation.

## Interest, tax and dividends

Net Group interest payable reduced by 7.0% to £26.4million (2005: £28.4m) due to reduced average levels of debt across the period.

The taxation charge for the year is £27.0m (2005: £27.3m) representing an effective rate of 30.8% (2005: 26.9%). The prior year effective tax rate was less than 30%, due to a £2.3m credit relating to prior year issues.

The recommended dividend for the year is £25.0m (2005: £25.0m).

| Group profit and loss account (£m) | 2006 | 2005 |
|---|---|---|
| Profit from operations | **84.0** | 94.1 |
| Movement in fair values | **30.1** | 35.6 |
| Net interest payable | **(26.4)** | (28.4) |
| Profit before tax | **87.7** | 101.3 |
| Taxation | **(27.0)** | (27.3) |
| Profit after tax | **60.7** | 74.0 |
| Dividends recommended | **25.0** | 25.0 |

## Cash flow and capital expenditure

The Group generated net operating cash inflow for the year (after funding interest, tax and dividend payments) of £69.6m (2005: £88.7m) available to fund capital investment. The reduction in funds available for investment is the result of reduced operating profits, increased taxation, pension funding and increased dividend payments during the year.

Capital expenditure has increased on the prior period due to the need to increase capacity to facilitate ongoing passenger growth. The forecast increases in passenger traffic at all Group airports will continue to require significant investment in additional terminal and airfield capacity in the near future.

| Group cash flow (£m) | 2006 | 2005 |
|---|---|---|
| EBITDA (net operating cash flow) | **151.5** | 162.6 |
| Working capital changes | **(5.2)** | (9.3) |
| Interest, tax and dividends | **(76.7)** | (64.6) |
| Capital expenditure, net | **(93.4)** | (37.8) |
| (Increase)/decrease in net debt | **(23.8)** | 50.9 |

## Balance sheet

Equity shareholders funds increased by £29.0m to £793.1m during the year (2005: £764.1m).

## Financing

During the year net debt increased by £23.8m to £295.9m (2005: £272.1m).

Secured PWLB loans are long term loans due to the Greater Manchester local authorities, which are in turn originally funded from the UK Government Public Works Loan Board. In weighted average terms, these loans have an average maturity of 10 years and an average fixed interest of 10.2%.

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

The current variable interest rate exposure is limited to the net of the cash balances and the unsecured bank loan. The net exposure is hedged by a £87.5m floating to fixed interest rate swap, at a fixed rate of 5.5%, which amortises to £70.6m in 2009.

The fair value of the net debt exceeds the balance sheet value by £58.5m (2005: £61.2m), primarily due to the fact that the fixed interest rates on the secured PWLB loans exceed the current market rates.

In March 2005 Standard and Poor's assigned the Group a corporate credit rating of 'A' with a stable outlook and this rating has continued to be reaffirmed on a quarterly basis since that time. The rating reflects MAG's strong business profile and its position as the UK's second largest airport operator and compares MAG favourably with its competitors.

| Movement in shareholders' funds (£m) | |
|---|---|
| As at 31 March 2005 | **764.1** |
| Retained profit for the year | **29.0** |
| As at 31 March 2006 | **793.1** |

| Analysis of net debt (£m) | **2006** | 2005 |
|---|---|---|
| Secured PWLB loans | **189.1** | 199.8 |
| Unsecured bank loans | **180.0** | 170.0 |
| Finance leases | **15.9** | 19.0 |
| Unamortised issue expenses | **(0.6)** | (1.3) |
| Total debt | **384.4** | 387.5 |
| Cash balances | **88.5** | 115.4 |
| Net Debt | **295.9** | 272.1 |
| Fair value | **354.4** | 333.3 |

## Pensions

During the year, the aggregate deficit in the Group's four defined benefit schemes increased from £65.9m to £67.7m, 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 91.1%. The actuarial deficit on the GMPF scheme and the other smaller Group schemes has been significantly addressed, by a combination of an increased employer contribution rate of 22% during the year, and a one-off contribution of £25.0m, £7.2m of which was paid in March 2006 and £17.8m in April 2006.

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 2005 | **(65.9)** |
| Current and past service cost | **(7.1)** |
| Contributions | **15.1** |
| Expected return on pension scheme assets | **15.5** |
| Interest on pension scheme liabilities | **(15.8)** |
| Actuarial loss | **(9.5)** |
| Deficit as at 31 March 2006 | **(67.7)** |

| Assets and liabilities in pension schemes (£m) | 2006 | 2005 |
|---|---|---|
| Total market value of assets | **285.2** | 225.9 |
| Present value of liabilities | **(352.9)** | (291.8) |
| | **(67.7)** | (65.9) |

## Transition to International Financial Reporting Standards (IFRS)

These financial statements have been produced in accordance with IFRS. The most significant impacts on MAG's financial statements resulting from the implementation of IFRS are detailed below.

- the annual revaluation surplus/deficit on investment properties will be recognised in the income statement;
- additional deferred taxation liabilities will be provided in relation to temporary timing differences arising on investment property revaluations and historic operational property revaluations;
- the fair value of pension scheme assets and liabilities will be brought onto the balance sheet, along with the associated deferred tax asset. This will introduce a net liability onto the balance sheet, similar to that previously disclosed under FRS 17;
- derivative financial instruments will be recognised in the balance sheet at fair value;

## 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 to the Audit Committee. The assessment of risk is also integrated with day to day management processes and figures in capital investment and project management procedures.

The key corporate risks and mitigation profile 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 with a view to delivering an even higher standard of security service to passengers. Also, there has 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 viewed as a priority operational risk for the Group to manage. A Group-wide structure is in place to support management in the execution of their responsibilities through the provision of 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 and Safety committees that in turn are overseen by a corporate Health & Safety committee with board level oversight.

## Environmental Compliance

Increased environmental restrictions in respect of noise and pollution potentially place limitations on future growth. This risk is addressed by a dedicated team whose remit is to research and model future trends in air traffic and to develop environmental impact assessments. The Group is also actively working 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 the context of 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 airport business is that there is a constant threat of a downturn in demand due to adverse global economic factors or specific events, such as a terrorist incident or avian 'flu. This risk is mitigated by the application of prudent financial controls, the gathering of business intelligence and contingency planning. The combined effect of these mitigating actions is to make the Group capable of a flexible response in the event of a business interruption.

## Capacity shortfall

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



## MAG is committed to becoming a leader in responsible business thinking and practice, through its comprehensive corporate responsibility (CR) policy for the Group. MAG recognises that CR is a key requirement for the long-term sustainable growth of the business.

MAG has a long history of environmental and social commitment and a wide range of CR activities are presently undertaken within the Group, including a suite of employment and social policies and a very well developed environmental management programme. However, these activities and the underlying rationale on which they are built have only recently been brought together in a coordinated approach.

During the year, the Corporate Responsibility Co-ordinator conducted an internal review of current activity and perceptions across the Group's management as well as benchmarking MAG's CR performance against other companies, both in the aviation sector and other sectors. A CR Steering Group has been established to explore further how to embed CR into the Group's core business activities and decision-making processes.

Managing environmental, social and economic impacts of the business responsibly – whether positive or negative – is an integral part of the way we conduct our business. There is a continuing commitment to ingraining a culture that is aligned to MAG's core values.

Due to the broad issues with which CR is concerned, the remainder of this report outlines some of the events, progress and achievements of MAG's corporate responsibilities to the environment, its employees and the communities in which its airports operate.

## 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 (available at www.manchesterairport.co.uk)

An environmental team works across NEMA (policies are available at www.nottinghamema.com), Bournemouth and Humberside Airports, in order to implement a comprehensive suite of voluntary environmental mitigation measures.

Nottingham 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 2005. Manchester Airport is currently working towards attaining this standard.

During the year Manchester Airport was awarded with a Gold Award from Manchester City Council, Groundwork Trust, Merseybasin Campaign, Environment Agency and EnCams for taking significant action to minimise negative environmental impacts.

## Noise and Track keeping

MAG aims to contain and minimise noise impacts arising from operations at all its airports.

Manchester Airport has legally committed to ensuring that the overall level of daytime aircraft noise will be kept at levels less than those experienced in 1992. This is measured by the 60 Laeq noise contour that is produced by the CAA.

Aircraft are monitored to ensure that they depart along defined routes. As part of the second runway development Manchester Airport committed itself to a target of 95% of departures being 'on track'. In 2005/06 track keeping has further improved with 97.1% of aircraft keeping to their designated tracks (2004/05: 96.3%).

Manchester Airport has also been working with Eurocontrol on a trial to introduce Continuous Descent Approaches at night that are designed to reduce the amount of noise generated from arriving aircraft. The trial has been successful and a full operating procedure will be introduced from summer 2006.

Last year, 99% of aircraft kept to their designated tracks at NEMA compared with a 95% target. Four noise monitoring units have been installed at sites around the airport with a fifth soon to be added. It is intended that data from the noise monitors will be published on the airport's website.

Humberside Airport has re-launched its noise-monitoring programme using a fixed and mobile monitor and Bournemouth Airport has recently acquired a mobile noise-monitoring unit.

## Climate changes

MAG maintains an active interest in the climate change debate in relation to its airports and seeks to develop policies that support the UK Government's commitments in respect of reducing climate change related emissions.

Manchester Airport reports on greenhouse gas emissions from all airport sources in its annual sustainability report. Using 2000 levels as a benchmark Manchester Airport has also set itself a 10% target reduction of $CO_2$ from energy sources by 2015.

Manchester is also included in the first phase of the EU Emissions Trading Scheme that commenced in January 2005 and has been set a target to reduce its emissions over three years to 2008.

In June 2005, Manchester Airport was awarded a Northwest Business Environment Award for the development and implementation of its climate change action plan.

At Manchester, Nottingham East Midlands and Humberside Airports the Carbon Trust has undertaken surveys to assess carbon emissions. A carbon-monitoring group has been established at Nottingham East Midlands to target reductions in carbon emissions.

## Waste management and resource use

MAG is committed to minimising waste arising from the operation of its airports and to adopting best practice waste management initiatives, including recycling.

Nottingham East Midlands Airport has established an on-site recycling facility and working in partnership with other companies on site now recycles 25-30% of waste.

Manchester Airport aims to increase on-site recycling to 22% in 2015, in 2005/06 the recycling figure increased to 15.1%. One of the targets set out in the Environment Plan is to reduce waste disposal from passengers by 22% by 2015 from a 1996 base. This target has already been exceeded in 2005/06 as the amount of waste disposal per passenger has been reduced by 23% from the 1996 base.

Bournemouth Airport has introduced a waste-charging scheme for tenants and at Humberside Airport a recycling facility is being established.

MAG aims to be efficient in its use of energy and water and encourages airports and their service partners to utilise alternative and renewable sources both in existing and new developments. During the year under review MAG met its target to purchase 10% of electricity from renewable sources (a saving of 4,300 tonnes of carbon over the year) and has contracted for 15% renewables for each of the four airports for 2006/07.

Energy costs have risen substantially during the year. This has given added focus to review energy and water consumption figures and develop processes and targets to reduce consumption. Major energy and water consuming plant and processes have been identified and action plans developed to reduce usage. Areas that are being targeted include boilers, chilling plant, lighting and conveyor systems. These four areas are responsible for over 65% of energy consumed on site.

Both Manchester Airport and Nottingham East Midlands Airport are members of the Airport Carbon Management Group (ACMG). ACMG, developed in association with the Carbon Trust, has two key aims; to create clear and consistent energy benchmarking systems specific to airports and to develop and co-ordinate new products and services to reduce energy consumption applicable across UK airports.

## Air Quality

Air quality is measured at MAG airports and MAG seeks to develop a greater understanding of the effects of aviation on air quality.

Air quality is affected by a number of pollutants from a number of sources; road traffic, aircraft engines, power generation plant and airside vehicles. A suite of measures has been introduced to manage, with a view to reducing, emissions. Both Manchester Airport and Nottingham East Midlands Airport seek to implement operational practices that reduce emissions from aircraft on the ground such as minimising taxiing times through adoption of efficient ground movement by air traffic control.

At both airports all vehicles that operate airside are required to comply with MoT certificate emission standards. Any vehicle not in compliance is prohibited from operating on the airfield until improvements are made. At Manchester a fleet of low emission vehicles has been purchased and trials undertaken with petroleum gas fuelled and electric vehicles. Regular events are held to promote best practice and trial new initiatives.

Also, on the Manchester site the use of fixed electrical ground power rather than relying on aircraft auxiliary power units and mobile diesel units is encouraged on environmental grounds as it reduces on site air emissions.

More information on air quality monitoring can be found at www.airquality.co.uk and local air quality for Manchester is available at www.greatairmanchester.org.uk. Air quality monitoring is carried out at Nottingham East Midlands Airport in conjunction with North West Leicestershire District Council, the results of air quality monitoring are posted on the airport's website www.nottinghamema.com

## Ground Transport

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

Manchester Airport's Ground Transport Strategy to 2015 ('GTS') contains challenging targets for Manchester to deliver in terms of public transport by developing the airport as an integrated transport hub. The GTS comprises a suite of measures such as the development of heavy rail, bus and coach services and continuing the promotion of green travel for staff and passengers. Cycle use has increased through investment in cycle routes, secure parking, showers and a cycle centre. The extension of the Metrolink light rail system to Manchester is an important component of the GTS.

At Nottingham East Midlands Airport there has been good progress in implementing its Surface Access Strategy. The Airport Master Plan referred to later in this report will reinforce this strategy as it is recognised that proposals to improve public transport and other sustainable modes must relate more closely to the progressive growth of the Airport's operations. Public transport links to Derby, Nottingham, Loughborough and Swadlincote have been improved by working more closely with several bus companies across the region and a direct service to Leicester has now been agreed. Both passengers and employees working for the airport and our service partners will benefit from these services.

## Land use and Ecology

Manchester Airport has previously consulted on its draft Development Strategy to 2015; a comprehensive land use policy document consistent with principles of sustainable development. During the development of the second runway a £17m environmental mitigation package was implemented which is now being managed by a multi-partner 15 year Landscape and Habitat Management Plan.

In February Nottingham East Midlands Airport commenced public consultation on its Airport Master Plan with a view to producing the final plan in autumn 2006.

All MAG airports will have produced Airport Master Plans by the end of 2006.

Bournemouth Airport has agreements with English Nature to manage its Sites of Special Scientific Interest and Sites of Nature Conservations Interest. Bournemouth is also undertaking a wildlife enhancement scheme for these sites.

## Water Quality

Both Manchester Airport and Nottingham East Midlands Airport work with the Environment Agency to monitor and achieve improvements in water quality, particularly the discharge of water containing de-icing fluid. Manchester Airport is also developing preventative measures for contractors working on site and reviewing its drainage infrastructure.

## Community Initiatives

MAG aims to maximise the benefits of its airports on the surrounding communities and work with them to help mitigate against the negative impacts resulting from the operation of airports. A wide range of innovative and pro-active initiatives are employed to help achieve this aim.

## Community Trust Funds

Each MAG airport has a Community Trust Fund to support and fund local community initiatives that award grants to projects with a community, social or environmental focus.

The Manchester Airport Community Trust Fund makes a valuable contribution to the local communities around the Airport. From April 2006 the Trust will receive an additional £50,000 p.a. from the Airport Company bringing the total available grants to £150,000 per annum. This is in addition to income derived from fining noisy aircraft, which in the previous financial year generated £20,881. Over the past year 96 applications have been received and 69 grants made to a wide variety of recipients both in terms of geographic area and project type totalling £149,013.

In January this year Nottingham East Midlands launched a quarterly community newsletter '*the flyer*' detailing community projects, activities and initiatives.

## Community Outreach

Community outreach sessions continue to play an important role in facilitating face-to-face dialogue with local communities. These events give local residents the opportunity to ask questions of airport representatives and raise any issues or concerns they may have.

During the year both Manchester and Nottingham East Midlands Airport's Community Relations teams have held several outreach sessions in communities around the airports.

## Community Champions

Both Manchester and Nottingham East Midlands Airport operate a network of 'Community Champions' that promote employee involvement in local schools and the wider community. Examples include the employees who have set up Bingo sessions at a local elderly people's home, 18 primary school reading mentors, clean-ups and makeovers at local community farms/sanctuaries, and employees facilitating mock job interviews with local secondary school pupils.

## Arts Sponsorship

MAG is one of the largest sponsors of local arts projects in the North West with an annual contribution of 1% of the Group's operating profit to an arts sponsorship fund. A large number of the arts organisations sponsored have an educational element giving both primary and secondary school pupils the opportunity to participate in workshops and the chance to experience theatre, music and opera.

In 2005/6 the fund sponsored arts projects such as Northern Ballet Theatre's UK tour and London season, the Bridgewater Hall International Season, the Library Theatre including the Christmas Show involving children from local schools in workshops with the actors, culminating in a visit to the theatre for a performance, the Chinese Arts Centre, 24:7 festival, a week long festival giving the opportunity to local playwrights to have their work produced.

Opera North productions including a children's opera 'The Pied Piper' which went into schools in Hull, Nottingham and Leicester to work with the children and give them the chance to perform in front of an audience with professional singers. Also included in the programme are a number of organisations that perform in Hull and Nottingham in support of our regional airports.

## 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 around 3,000 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 its employees. The management and development of people has been underpinned by further embedding and cascading the MAG performance management process. As well as business targets the process specifically includes personal development targets and targets around demonstrating the culture and values that MAG believes give competitive edge.

As well as a comprehensive technical training programme, a behavioural competency framework has been implemented to support the development of senior and middle managers with 360° assessments for all senior managers, including the executive team. The framework is supported by a mix of on the job learning opportunities and classroom based interventions. This soft skills learning programme will be further cascaded to front line team leaders throughout 2006/07.

MAG is committed to the Investor In People standard and has now completed the process of renewing accreditation for all the Manchester based divisions as well as achieving the first accreditation for Nottingham East Midlands Airport and Humberside Airport. The accreditation for Bournemouth Airport will be completed in 2006/07.

## Recruitment

As well as involvement in local jobs fairs, 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.

Links with local schools and colleges are supported through a programme of work experience placements. Employees are encouraged to take part in school mentoring schemes covering literacy and numeracy and to volunteer as school governors. At Nottingham the airport has teamed up with South Derbyshire Environmental Education Partnership to produce an on-site educational programme aimed at seven to ten year olds.

Nottingham East Midlands Airport has an on-site employment co-ordinator to work with employers and external agencies such as Jobcentre Plus, the Learning and Skills Council and neighbouring local authorities to open up employment opportunities at the airport. One of the most recent projects is the production of a CD-rom designed for schools, colleges, universities and job centres highlighting the different and varied career opportunities at the airport.

For the first time ever MAG has launched a graduate development programme in order to continue to bring top talent into the business and develop future leaders in key areas of commercial and operations management.

## Communication

MAG is continually seeking ways of improving internal communications. A high level steering group develops the co-ordinated communication strategy that supports business and cultural objectives. As well as continuing the success of the quarterly in-house magazine *'simply better'*, communication has been further enhanced this year by the introduction of a monthly newssheet *'simply MAG News'* issued to all employees. Both of these publications encourage feedback.

MAG undertakes regular employee surveys to gauge employee opinion on a wide range of business issues and seeks to involve employees in subsequent improvement action plans. This year the regular 18-monthly surveys have been supplemented by a series of 6-monthly sample surveys in order to maintain momentum and establish more frequent updates on employee views.

MAG 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. In addition to formal consultation and bargaining arrangements this year has seen the development of a series of joint conferences between employee representatives and Group representatives including an annual business briefing on business performance and future plans. As a further development these conferences have brought about a joint employee training initiative delivered in partnership between employee representatives and Group representatives.

## 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, wherever practicable.

Based on information from the regular employee surveys an Anti-Bullying Campaign has been launched with a management and employee steering group. Although MAG already has an established internal 'whistleblowing' procedure and a network of line management and Dignity at Work Counsellors, the Anti-Bullying group will support, develop and communicate the MAG position on bullying.

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

MAG's occupational health policy recognises the benefits of a healthy workforce and seeks to achieve the management of workplace health issues through utilisation of best practice.

At Manchester Airport the Occupational Health unit has drawn up a calendar of health awareness campaigns including stress awareness, asthma, healthy living and a 'no smoking' day.

An Employee Assistance Programme provides support to employees on a range of personal and work related issues.


## Health and Safety

MAG's commitment to health and safety is reflected in the Group's values:

**"Working together for a safe and healthy environment for everyone – exemplary health and safety performance is crucial to our success".**

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 further development of the MAG Safety Management System in order that workplace risk is assessed and managed. Work is ongoing to ensure that the electronic manual of procedures is available on all MAG sites and that it is used to best effect.

Proposed developments in the MAG Safety Management System are:

- MAG wide electronic archive and depository for risk assessments and safe systems of work;
- Adoption of ill health absence KPI's to be monitored by the Corporate Safety Steering Group;
- Implementation of a revised health and safety consultation process across the Manchester Airport site.

**Employee Accident Statistics**

| Year | Non reportable[1] | RIDDOR reportable[2] |
|---|---|---|
| 2004/05 | 357 | 68 |
| 2005/06 | 283 | 66 |
| Accident reduction[3] | 21% | 3% |

[1] Non-serious injuries

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

[3] Percentage improvement in reporting year 05/06

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 32. 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 (which 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 eleven 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.

The terms of reference for the committee are:

- To consider the appointment, independence, performance and cost effectiveness of the Group's external auditors;
- To review the interim and annual report and accounts;
- To analyse the Board's key procedures adopted to provide effective control; and
- To review the internal audit programme.

The Audit Committee has established a policy on the engagement of the external auditors for non-audit services to safeguard their objectivity and independence in relation to such services.

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.

### Renumeration and Review Committee

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 33.

The current members of the Remuneration and Review Committee are Alan Jones (Chairman), Michael Gooddie, John Hancock, 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 for the specific purpose of identifying and recommending candidates for the post of Group Finance Director, comprising Alan Jones (Chairman), David Kennedy and the Group Chief Executive.

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

| | Board | Audit | Remuneration |
|---|---|---|---|
| **Total number of meetings in 2005/06** | **11** | **6** | **2** |
| **Number of meetings attended** | | | |
| Alan Jones | 11 | – | 2 |
| Michael Gooddie | 9 | – | 2 |
| John Hancock | 9 | – | 1 |
| Brian Harrison | 10 | 5 | 2 |
| David Kennedy | 10 | 6 | – |
| Thomas Marshall | 8 | – | – |
| Michael Medlicott | 11 | 6 | – |
| Brenda Smith | 10 | – | – |
| Peter Smith | 11 | 5 | 2 |
| Geoff Muirhead | 11 | – | – |
| Rowena Burns | 11 | – | – |
| Philip Ridal *(1)* | 5 | – | – |
| Richard Pike *(2)* | 6 | – | – |

*(1) Philip Ridal resigned in September 2005*
*(2) Richard Pike was appointed in September 2005*

## 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.

## 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 19.

## 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

**Michael Gooddie FCIPD, FRSA**

Appointed in January 2004. He has been Human Resources Director of Great North Eastern Railway since 1998. He is a Director of Great South Western Railway Limited, a joint venture between GNER Holdings Limited and MTR Corporation Limited of Hong Kong.

**John Hancock**

Appointed in February 2002 and re-appointed for a further term of three years from January 2005. He is President of the British-American Business Council; he is a former Chief Executive of MFI Furniture Group plc and a former executive director of the W H Smith Group plc.

**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 MSc**

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; he is an aviation consultant. He is a former Chief Executive Officer of Aer Lingus and a former Chief Operating Officer of TransWorld Airlines and a former Chairman of Bank of Ireland Life.

**Thomas Marshall MA FRICS**

Appointed in January 2004 and re-appointed for a further term of three years from January 2006. 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 and re-appointed for a further term of three years from January 2005. He is currently a non-executive director of National Savings & Investments at HM Treasury and a non-executive director of Laing Rail Ltd. He was formerly Transaction Director of the Principal Finance Group Nomura International plc and Chief Executive of Servus Holdings Limited, having been International Vice President of Delta Air Lines Inc. and Chief Executive of the British Tourist Authority.

**Brenda Smith BA MBA ACA**

Appointed in January 2004 and re-appointed for a further term of three years from January 2006. She is currently Group Managing Director of Ascent Media EMEA Deputy Chairman of Granada TV Limited, a Director of the North West Development Agency, a Director of Liverpool Vision and Chairman of Skillset London Forum.

**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.

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 28. 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 senior executives 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 calibre executives.

Remuneration packages comprise:

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

## Executive directors' base salaries and annual bonuses

The base salaries of executive directors are reviewed annually, having regard to personal performance, Company performance, affordability and competitive market practice as determined by external research. In 2005/06 the executive directors participated in the Manchester Airport Group Executive Bonus Scheme. Subject to satisfactory personal performance and the achievement of personal targets, the executive directors could earn a maximum bonus of 30% of base salary.

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 3)* | **Total emoluments 2006** | Total emoluments 2005 |
|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | £'000 |
| **Executive Directors** | | | | | | |
| Geoff Muirhead | 315 | 5 | 77 | 17 | 413 | 373 |
| Rowena Burns | 226 | – | 54 | 19 | 300 | 273 |
| Philip Ridal *(Note 1)* | 90 | 5 | 53 | 1 | 150 | 261 |
| Richard Pike *(Note 2)* | 237 | – | – | 60 | 297 | – |
| **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 |
| | 1,138 | 10 | 185 | 45 | 1,430 | 1,177 |

*Notes*

*(1) Philip Ridal resigned in September 2005.*

*(2) Richard Pike was appointed in September 2005. Fees paid to Richard Pike in the year include one-off appointment and transition costs amounting to £100,000.*

*(3) 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; Phillip Ridal received critical illness cover. Those Directors not taking advantage of the full suite of benefits in kind available were compensated through additional salary payments. Benefits receivable by Richard Pike in the year also include reimbursement of £51,000 of relocation costs.*

Bonuses paid to executive directors for the year ending 31 March 2005 are in accordance with the criteria outlined above. Brian Harrison and Peter Smith receive no remuneration or fees.

## Retirement Benefits

Geoff Muirhead and Rowena Burns are members of the Greater Manchester Pension Fund, a defined benefit scheme. During the year, the Company paid contributions of £32,700 (2005: £25,000) to a personal pension arrangement on Philip Ridal's behalf. Richard Pike is a member of the Group's money purchase scheme and the Company has paid contributions of £15,000 to this scheme on his behalf.

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

| | **Pensionable Service at 31 March 2006 Years** | **Accrued pension at 31 March 2006 £'000** | Accrued pension at 31 March 2005 £'000 | **Accrued lump sum at 31 March 2006 £'000** | Accrued lump sum at 31 March 2005 £'000 |
|---|---|---|---|---|---|
| Geoff Muirhead | **17.50** | **69** | 64 | **80** | 74 |
| Rowena Burns (*Note 1)* | **19.58** | **55** | 48 | **166** | 143 |

| | Transfer value at 31 March 2005 £'000 | Changes to transfer value £'000 | **Transfer value at 31 March 2006 £'000** |
|---|---|---|---|
| Geoff Muirhead | 872 | 204 | **1,076** |
| Rowena Burns (*Note 1)* | 773 | 153 | **926** |

*Notes*

*(1) Rowena Burns pensionable service with the Greater Manchester Pension Fund at 31 March 2006 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
8 June 2006

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2006.

## 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 44.

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) (2005: £25m (12.24 pence per share)) is declared. The retained profit for the year of £35.7m (2005: £57.5m) will be transferred to reserves.

## Shareholders

The Shareholders as at 31 March 2006 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 pages 31 and 32. Richard Pike was appointed Group Finance Director in September 2005 following the resignation of Philip Ridal. Both Brenda Smith and Thomas Marshall were re-appointed as non-executive directors each for a further term of three years with effect from January 2006.

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.

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 is a Group wide in-house newspaper, which is produced on a monthly basis.

## Policy and practice on payment of creditors

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

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

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

The period of credit taken by the Group at 31 March 2006 was 54 days (2005: 43 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 £172,000 (2005: £197,000). 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

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board

**S Welsh**
**Secretary**
**For and on behalf of**
**the Board of Directors**
8 June 2006

# Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements.

The directors have chosen to prepare accounts for the Group in accordance with International Financial Reporting Standards (IFRSs) and have chosen to prepare company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

In the case of UK GAAP accounts, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, 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 Company will continue in business.

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

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

In the case of IFRS accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definition and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

- Properly select and apply accounting standards;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirement in International Financial Reporting Standards is insufficient to enable users to understand the impact of the entity's financial position and financial performance; and
- Prepare the accounts on a going concern basis unless, having assessed the ability of the company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

Financial information is published on the Group's website. The maintenance and integrity of this website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may occur to the financial statements after they are initially presented on the website.

It should be noted that legislation in the United Kingdom 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 of The Manchester Airport Group PLC for the year ended 31 March 2006 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related notes. These group 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 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

### Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the information given in the Directors' Report is consistent with the group financial statements. We also report to you if, in our opinion 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 other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Chairman's Statement, the Review of Operations, the Financial Review, Corporate Responsibility, the Report on Corporate Governance, the Board of Directors, the unaudited part of the Directors' Remuneration Report, the Directors Report and the Statement of Directors' Responsibilities. 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 of 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 group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group 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 group 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 European Union, of the state of the group's affairs as at 31 March 2006 and of the profit and cash flows for the year then ended; and
- the group 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 group financial statements.

**PricewaterhouseCoopers LLP**
**Chartered Accountants and Registered Auditors**
**Manchester**
12 June 2006

# 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.

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.

### First time adoption of IFRS transitional arrangements

The Group's transition date to IFRS is 1 April 2004 and certain optional exemptions included in IFRS 1 'First Time Adoption of International Financial Reporting Standards' are reflected in the Group's opening transitional balance sheet at 1 April 2004. These exemptions are:

Deemed cost exemption – The Group will account for operational assets under the cost model, however operational assets that were revalued under previous GAAP will maintain their revalued carrying amount under previous GAAP as 'deemed cost' under IFRS.

Business combinations exemption – IFRS 3 'Business combinations' has been applied prospectively from the date of transition at 1 April 2004 and consequently the carrying value of goodwill under previous GAAP is maintained at 1 April 2004.

### Basis of consolidation

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

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

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

### Revenue

Revenue is 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.

# Accounting policies

continued

### 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. 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 – 25 |
| 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 depreciated over a period in excess of 50 years are reviewed for impairment on an annual basis.

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

### 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 fair value 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.

# Accounting policies

continued

### 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.

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, cashflows, 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 immediately in the income statement during the period 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.

### 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 income 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.

# Accounting policies

continued

### 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.

The Group has chosen to adopt IAS 19 (amended) early and consequently any actuarial gains or losses are recognised immediately in the statement of recognised income and expense.

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 Shareholders.

# Consolidated income statement

for the year ended 31 March 2006

| | Notes | 2006 £m | 2005 £m |
|---|---|---|---|
| **Revenue** | 1 | **385.2** | 373.5 |
| Profit before restructuring costs | | **87.7** | 94.1 |
| Restructuring costs | | **(3.7)** | – |
| **Profit from operations** | 3 | **84.0** | 94.1 |
| Movement in available for sale investment fair values | 13 | **(0.9)** | (0.7) |
| Movement in investment property fair values | 12 | **31.0** | 36.3 |
| Finance income | 6 | **1.1** | 1.4 |
| Finance costs | 7 | **(27.5)** | (29.8) |
| **Profit before taxation** | 8 | **87.7** | 101.3 |
| Taxation | 9 | **(27.0)** | (27.3) |
| **Profit for the year after taxation** | | **60.7** | 74.0 |
| The results presented above are all derived from the Group's continuing operation | | | |
| Earnings per share expressed in pence per share – | | | |
| Basic | 11 | **29.71** | 36.22 |
| Proposed equity dividends (12.24 pence per share (2005: 12.24 pence per share)) | 10 | **25.0** | 25.0 |

# Consolidated statement of recognised income and expense

for the year ended 31 March 2006

| | Note | 2006 £m | 2005 £m |
|---|---|---|---|
| **Profit for the year after taxation** | | **60.7** | 74.0 |
| Actuarial (losses) / gains on retirement benefit liabilities | 27 | **(9.5)** | 10.9 |
| Deferred tax on retirement benefits actuarial movements | 27 | **2.9** | (3.3) |
| Changes in fair value of cash flow hedges | 27 | **(0.1)** | 0.4 |
| Deferred tax on changes in fair value of cash flow hedges | | **–** | (0.1) |
| Deferred tax on fair value acquisition adjustment | | **–** | 1.7 |
| **Net (losses) / gains recognised directly in equity** | | **(6.7)** | 9.6 |
| **Total recognised income for the year** | | **54.0** | 83.6 |

# Consolidated statement of changes in equity

for the year ended 31 March 2006

| | 2006 £m | 2005 £m |
|---|---|---|
| Opening shareholders' funds | **764.1** | 697.0 |
| Total recognised income for the year | **54.0** | 83.6 |
| Dividends paid in the year | **(25.0)** | (16.5) |
| **Equity shareholders' funds as at 31 March** | **793.1** | 764.1 |

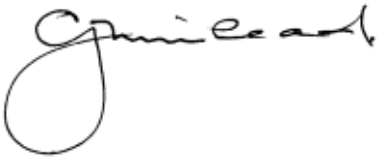
# Consolidated balance sheet

as at 31 March 2006

| | Notes | 2006 £m | 2005 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **1,429.3** | 1,370.1 |
| Deferred tax assets | 24 | **28.1** | 26.4 |
| | | **1,457.4** | 1,396.5 |
| **Current assets** | | | |
| Trade and other receivables | 14 | **41.2** | 48.5 |
| Cash and cash equivalents | 15 | **94.8** | 116.0 |
| | | **136.0** | 164.5 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Borrowings | 16 | **(14.9)** | (14.4) |
| Trade and other payables | 21 | **(98.2)** | (96.1) |
| Current tax liabilities | | **(10.7)** | (14.9) |
| | | **(123.8)** | (125.4) |
| **Net current assets** | | **12.2** | 39.1 |
| **Non-current liabilities** | | | |
| Borrowings | 16 | **(375.8)** | (373.7) |
| Derivative financial instruments | 22 | **(0.9)** | (0.8) |
| Retirement benefit liabilities | 23 | **(67.7)** | (65.9) |
| Deferred tax liabilities | 24 | **(206.1)** | (201.9) |
| Other non-current liabilities | 25 | **(26.0)** | (29.2) |
| | | **(676.5)** | (671.5) |
| **Net assets** | | **793.1** | 764.1 |
| **Shareholders' equity** | | | |
| Share capital | 26 | **204.3** | 204.3 |
| Revaluation reserve | 27 | **348.1** | 341.2 |
| Retained earnings | 27 | **240.7** | 218.6 |
| **Total equity** | | **793.1** | 764.1 |

The financial statements on pages 40 to 75 were approved by the Board of Directors on 8 June 2006 and signed on its behalf by:

Alan Jones **Chairman**



Geoff Muirhead **Group Chief Executive**

# Consolidated cash flow statement

for the year ended 31 March 2006

| | Notes | 2006 £m | 2005 £m |
|---|---|---|---|
| **Cash inflows from operating activities** | | | |
| Cash generated from operations | 33 | **147.0** | 154.6 |
| Net interest paid | | **(25.7)** | (27.0) |
| Tax paid | | **(26.0)** | (21.1) |
| **Net cash from operating activities** | | **95.3** | 106.5 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(92.7)** | (39.0) |
| Proceeds from sale of property, plant and equipment | | **0.5** | 1.6 |
| Purchase of fixed asset investments | | **(0.9)** | (0.7) |
| Proceeds from capital grants (repaid) / received | | **(0.3)** | 0.3 |
| **Net cash used in investing activities** | | **(93.4)** | (37.8) |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of new bank loan | | **180.0** | 170.0 |
| Repayment of bank loan borrowings | | **(170.0)** | (200.0) |
| Repayment of other borrowings | | **(10.7)** | (4.9) |
| Finance lease principal payments | | **(3.1)** | (2.3) |
| Dividends paid to shareholders | | **(25.0)** | (16.5) |
| **Net cash used in financing activities** | | **(28.8)** | (53.7) |
| **Net (decrease)/ increase in cash and cash equivalents** | 34 | **(26.9)** | 15.0 |
| Cash and cash equivalents at 1 April | | **115.4** | 100.4 |
| **Cash and cash equivalents at 31 March** | | **88.5** | 115.4 |

Cash and cash equivalents include overdrafts of £6.3m (2005: £0.6m)

# Notes to the financial statements

for the year ended 31 March 2006

## 1. Revenue

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

| | 2006 £m | 2005 £m |
|---|---|---|
| **Aviation income** | **184.5** | 181.3 |
| | | |
| **Commercial income** | | |
| Baggage and freight handling | **20.7** | 20.1 |
| Car parking | **45.1** | 44.3 |
| Property and property related income | **41.0** | 37.6 |
| Concessions | **65.6** | 61.7 |
| Other | **28.3** | 28.5 |
| **Total commercial income** | **200.7** | 192.2 |
| **Total income** | **385.2** | 373.5 |

## 2. Business and geographical segments

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

| **2006** | Manchester Airport £m | Manchester Airport Developments £m | Nottingham 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 from operations | 63.7 | 12.9 | 12.4 | 0.6 | 0.7 | (0.3) | (6.0) | **84.0** |
| | | | | | | | | |
| **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 | 0.0 | (0.6) | **67.5** |

# Notes to the financial statements

for the year ended 31 March 2006

## 2. Business and geographical segments continued

| 2005 | Manchester Airport £m | Manchester Airport Developments £m | Nottingham East Midlands Airport £m | Bournemouth Airport £m | Humberside Airport £m | Aviation Services £m | Other and consolidation £m | **Consolidated £m** |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| External sales | 273.9 | 17.4 | 51.7 | 8.5 | 8.8 | 13.1 | 0.1 | **373.5** |
| Inter-segment sales | 5.0 | 10.4 | 0.2 | – | – | 4.2 | (19.8) | **–** |
| Total revenue | 278.9 | 27.8 | 51.9 | 8.5 | 8.8 | 17.3 | (19.7) | **373.5** |
| **Result** | | | | | | | | |
| Segment profit from operations | 71.8 | 12.2 | 16.6 | 0.7 | 1.3 | (2.0) | (6.5) | **94.1** |
| **Other information** | | | | | | | | |
| Segment assets | 1,161.6 | 181.2 | 260.8 | 46.6 | 22.3 | 6.2 | (117.7) | **1,561.0** |
| Segment liabilities | (554.7) | (99.7) | (118.3) | (10.5) | (23.4) | (7.8) | 17.5 | **(796.9)** |
| Capital expenditure | 30.7 | 5.0 | 5.0 | 0.9 | 1.1 | 0.8 | (1.6) | **41.9** |
| Depreciation | 60.0 | 0.8 | 7.3 | 0.6 | 0.5 | 0.2 | (0.9) | **68.5** |

## 3. Profit from operations

| | **2006 £m** | 2005 £m |
|---|---|---|
| **Turnover** | **385.2** | 373.5 |
| Wages and salaries *(Note 1)* | **68.0** | 66.2 |
| Social security costs | **6.2** | 5.7 |
| Pension costs | **8.4** | 7.7 |
| Employee benefit costs | **82.6** | 79.6 |
| Depreciation | **67.5** | 68.5 |
| Other operating charges | **147.4** | 131.3 |
| **Profit before restructuring costs** | **87.7** | 94.1 |
| Restructuring costs | **(3.7)** | – |
| **Profit from operations** | **84.0** | 94.1 |

*(Note 1) Wages and salary costs are disclosed before restructuring costs amounting to £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 2006

## 4. Employee information

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

| | **2006 Number** | 2005 Number |
|---|---|---|
| **By location** | | |
| Manchester Airport | **2,246** | 2,173 |
| Nottingham East Midlands Airport | **271** | 270 |
| Bournemouth Airport | **134** | 124 |
| Humberside Airport | **154** | 150 |
| | **2,805** | 2,717 |

## 5. Directors' emoluments

Further details of directors' emoluments and a description of the Group's remuneration policy are set out on pages 33 to 35 in the Remuneration Report.

| | **2006 £m** | 2005 £m |
|---|---|---|
| Aggregate emoluments | **1.4** | 1.2 |

The above emoluments include amounts paid in to money purchase schemes for two (2005: one) directors of £47,773 (2005: £25,500).

Retirement benefits are accruing to two directors (2005: two) under a defined benefit scheme.

| | **2006 £m** | 2005 £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 | **0.1** | 0.1 |

## 6. Finance income

| | **2006 £m** | 2005 £m |
|---|---|---|
| Bank interest receivable | **1.1** | 1.4 |

# Notes to the financial statements

for the year ended 31 March 2006

## 7. Finance costs

| | 2006 £m | 2005 £m |
|---|---|---|
| Interest payable on bank loans and overdrafts | **6.1** | 7.2 |
| Interest payable on finance leases | **1.2** | 1.3 |
| Interest payable on other borrowings | **19.6** | 20.0 |
| Amortisation of issue costs of bank loans | **0.6** | 1.3 |
| | **27.5** | 29.8 |

## 8. Profit before taxation

| | Note | 2006 £m | 2005 £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 | | **9.2** | 9.8 |
| Release of capital based grants | | **(1.5)** | (1.3) |
| Depreciation of property, plant and equipment: | | | |
| Owned assets | | **66.5** | 67.0 |
| Leased assets | | **1.0** | 1.5 |
| Profit on disposal of fixed assets | | **(0.2)** | (0.3) |
| Increase in fair value of investment property | | **(31.0)** | (36.3) |
| Change in fair value of available for sale investments | | **0.9** | 0.7 |
| Cost of inventories recognised as expense | | **1.2** | 1.6 |
| Employee benefit costs (excluding restructuring costs) | | **82.6** | 79.6 |
| Restructuring costs | 3 | **3.7** | – |
| Auditors' remuneration: | | | |
| Statutory audit services | | **0.2** | 0.2 |
| Non-audit services: | | | |
| Other assurance services | | **0.1** | 0.1 |
| Tax services | | **0.2** | 0.1 |
| Other non audit services | | **–** | 0.1 |

# Notes to the financial statements

for the year ended 31 March 2006

## 9. Taxation

### Analysis of charge in the period

| | 2006 £m | 2005 £m |
|---|---|---|
| **Current taxation** | | |
| UK Corporation tax on profits for the year | **21.6** | 25.8 |
| Adjustment in respect of prior year | – | (2.3) |
| **Total current taxation** | **21.6** | 23.5 |
| **Deferred taxation** | | |
| Temporary differences arising in the period | **4.8** | 4.5 |
| Adjustment in respect of prior year | **0.6** | (0.7) |
| **Total deferred taxation** | **5.4** | 3.8 |
| **Total taxation charge** | **27.0** | 27.3 |

### Taxation on items charges to equity

| | 2006 £m | 2005 £m |
|---|---|---|
| Deferred taxation on actuarial losses and gains | **2.9** | (3.3) |
| Deferred taxation on fair value of derivative financial instrument | **–** | (0.1) |
| Deferred taxation on fair value acquisition adjustment | **–** | 1.7 |
| | **2.9** | (1.7) |

### Factors affecting the taxation charge for the year

The total taxation for the year ended 31 March 2006 is higher than the standard rate of corporation taxation in the UK of 30%. The differences are explained below

| | 2006 £m | 2005 £m |
|---|---|---|
| Profit on ordinary activities before taxation | **87.7** | 101.3 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% | **26.3** | 30.4 |
| Effect of: | | |
| Expenditure not deductible for tax purposes | **0.1** | 0.3 |
| Non-taxable items | **–** | (0.3) |
| Adjustments to prior year taxation charge | **0.6** | (3.0) |
| Other | **–** | (0.1) |
| | **27.0** | 27.3 |

# Notes to the financial statements

for the year ended 31 March 2006

## 10. Dividends

| | 2006 £m | 2005 £m |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| Dividend paid for the year ended 31 March 2005 of 12.24 pence (2004: 8.08 pence) per share | **25.0** | 16.5 |
| Proposed final dividend for the year ended 31 March 2006 of 12.24 pence (2005: 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 not calculated.

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | **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 | **60.7** | **204.3** | **29.71** | 74.0 | 204.3 | 36.22 |

## 12. Property, plant and equipment

| **2006** | Investment properties £m | 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 or valuation** | | | | | | | | |
| At 1 April 2005 | 221.3 | 198.6 | 299.3 | 596.9 | 423.1 | 88.3 | 28.8 | 1,856.3 |
| Additions | – | 5.3 | 0.1 | 1.8 | 4.9 | – | 83.9 | 96.0 |
| Reclassification | 9.3 | (26.2) | 14.7 | 63.8 | 44.1 | (37.3) | (68.9) | (0.5) |
| Disposals | – | (0.2) | (6.1) | (3.7) | (44.3) | – | – | (54.3) |
| Revaluation | 31.0 | – | – | – | – | – | – | 31.0 |
| **At 31 March 2006** | **261.6** | **177.5** | **308.0** | **658.8** | **427.8** | **51.0** | **43.8** | **1,928.5** |
| **Depreciation** | | | | | | | | |
| At 1 April 2005 | – | 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** | **261.6** | **129.5** | **241.5** | **522.2** | **196.6** | **34.1** | **43.8** | **1,429.3** |
| At 31 March 2005 | 221.3 | 158.7 | 237.0 | 480.5 | 203.3 | 40.5 | 28.8 | 1,370.1 |

# Notes to the financial statements

for the year ended 31 March 2006

## 12. Property, plant and equipment continued

| 2005 | Investment properties £m | 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 or valuation** | | | | | | | | |
| At 1 April 2004 | 177.5 | 196.0 | 312.5 | 586.1 | 406.9 | 88.3 | 14.2 | 1,781.5 |
| Additions | 0.2 | 2.4 | 0.5 | 6.3 | 4.5 | – | 28.0 | 41.9 |
| Reclassification | 8.1 | 0.2 | (12.7) | 4.6 | 13.2 | – | (13.4) | – |
| Disposals | (0.8) | – | (1.0) | (0.1) | (1.5) | – | – | (3.4) |
| Revaluation | 36.3 | – | – | – | – | – | – | 36.3 |
| **At 31 March 2005** | **221.3** | **198.6** | **299.3** | **596.9** | **423.1** | **88.3** | **28.8** | **1,856.3** |
| **Depreciation** | | | | | | | | |
| At 1 April 2004 | – | 37.1 | 53.3 | 100.3 | 182.1 | 46.9 | – | 419.7 |
| Charge for the period | – | 2.8 | 9.7 | 16.2 | 38.9 | 0.9 | – | 68.5 |
| Disposals | – | – | (0.7) | (0.1) | (1.2) | – | – | (2.0) |
| **At 31 March 2005** | **–** | **39.9** | **62.3** | **116.4** | **219.8** | **47.8** | **–** | **486.2** |
| **Net book value** | | | | | | | | |
| **At 31 March 2005** | **221.3** | **158.7** | **237.0** | **480.5** | **203.3** | **40.5** | **28.8** | **1,370.1** |
| At 31 March 2004 | 177.5 | 158.9 | 259.2 | 485.8 | 224.8 | 41.4 | 14.2 | 1,361.9 |

Under IFRS I, the Group has elected to use the deemed cost transition exemption.

### Investment properties

The fair value of the Group's investment property at 31 March 2006 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 £41.0m (2005: £37.6m). Direct operating expenses arising on the investment property in the period amounted to £2.6m (2005: £2.6m).

The group has entered into a contract for the maintenance of its investment property which expires within one year and gives rise to an annual charge of £0.5m.

### Historical cost

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

| | Investment properties £m | 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 |
|---|---|---|---|---|---|---|---|---|
| **At 31 March 2006** | | | | | | | | |
| Cost | 87.0 | 84.9 | 259.3 | 404.2 | 410.6 | 51.0 | 43.8 | 1,340.8 |
| Aggregate depreciation based on cost | – | 29.3 | 59.3 | 89.3 | 214.2 | 16.9 | – | 409.0 |
| **At 31 March 2005** | | | | | | | | |
| Cost | 77.7 | 105.9 | 244.7 | 338.7 | 370.6 | 88.3 | 28.8 | 1,254.7 |
| Aggregate depreciation based on cost | – | 20.7 | 50.5 | 73.1 | 180.1 | 47.8 | – | 372.2 |

# Notes to the financial statements

for the year ended 31 March 2006

## 13. Available for sale investments

| | 2006 £m | 2005 £m |
|---|---|---|
| **Venture Capital investments** | | |
| **Fair value** | | |
| At 1 April 2005 | – | – |
| Additions in the period | 0.9 | 0.7 |
| Adjustments to fair value | (0.9) | (0.7) |
| **At 31 March 2006** | – | – |

## 14. Trade and other receivables

| | 2006 £m | 2005 £m |
|---|---|---|
| Trade debtors | 27.0 | 34.0 |
| Corporation tax recoverable | 0.5 | 0.3 |
| Other debtors | 4.1 | 2.1 |
| Prepayments and accrued income | 9.6 | 12.1 |
| | 41.2 | 48.5 |

The average credit period taken on sales is 22 days (2005: 28 days). An allowance has been made for estimated irrecoverable amounts from trade debtors of £1.8m (2005: £2.3m). 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.

## 15. Cash and cash equivalents

| | 2006 £m | 2005 £m |
|---|---|---|
| Short term deposits | 94.8 | 116.0 |
| | 94.8 | 116.0 |

Short term deposits accrue interest at rates ranging between 4.49% and 4.65%. 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 counterparties are well established banks.

# Notes to the financial statements

for the year ended 31 March 2006

## 16. Borrowings

| | Notes | 2006 £m | 2005 £m |
|---|---|---|---|
| Overdraft | | **6.3** | 0.6 |
| Bank loans | 17 | **179.4** | 168.7 |
| Other borrowings | 18 | **189.1** | 199.8 |
| Obligations under finance leases | 19 | **15.9** | 19.0 |
| | | **390.7** | 388.1 |
| Borrowings are repayable as follows: | | | |
| **In one year or less, or on demand** | | | |
| Overdraft | | **6.3** | 0.6 |
| Other borrowings | | **6.1** | 10.7 |
| Obligations under finance leases | | **2.5** | 3.1 |
| | | **14.9** | 14.4 |
| **In more than one year, but no more than two years** | | | |
| Other borrowings | | **6.2** | 5.7 |
| Obligations under finance leases | | **3.0** | 2.5 |
| | | **9.2** | 8.2 |
| **In more than two years, but no more than five years** | | | |
| Bank loans | | **179.4** | 168.7 |
| Other borrowings | | **59.3** | 20.3 |
| Obligations under finance leases | | **9.1** | 10.2 |
| | | **247.8** | 199.2 |
| **In more than five years – due other than by instalments** | | | |
| Other borrowings | | **36.4** | 74.1 |
| | | **36.4** | 74.1 |
| **In more than five years – due by instalments** | | | |
| Other borrowings | | **81.1** | 89.0 |
| Obligations under finance leases | | **1.3** | 3.2 |
| | | **82.4** | 92.2 |

## 17. Bank loans

| | 2006 £m | 2005 £m |
|---|---|---|
| Unsecured bank revolving credit of £325 million repayable wholly on 1 April 2009 *(Note 1)* | **180.0** | 170.0 |
| Less: unamortised debt issue costs | **(0.6)** | (1.3) |
| | **179.4** | 168.7 |

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

# Notes to the financial statements

for the year ended 31 March 2006

## 18. Other borrowings

| | 2006 £m | 2005 £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 2006 at an interest rate of 11.125% | **–** | 5.5 |
| Wholly on 30 March 2018 at an interest rate of 11.125% | **4.2** | 4.2 |
| | **74.0** | 79.5 |
| **Repayable by instalments** | | |
| In 50 half yearly instalments commencing 1 March 1993 at an interest rate of 10.75% (secured) | **6.4** | 6.7 |
| In 49 half yearly instalments commencing 1 June 1993 at an interest rate of 10.375% (secured) | **10.0** | 10.4 |
| In 49 half yearly instalments commencing 1 April 1993 at an interest rate of 10.375% (secured) | **15.6** | 16.3 |
| In 48 half yearly instalments commencing 1 August 1993 at an interest rate of 10.375% (secured) | **15.3** | 16.0 |
| In 48 half yearly instalments commencing 1 July 1994 at an interest rate of 9.5% (secured) | **14.9** | 15.5 |
| In 48 half yearly instalments commencing 1 September 1994 at an interest rate of 9.5% (secured) | **14.9** | 15.5 |
| In 48 half yearly instalments commencing 1 May 1994 at an interest rate of 9.5% (secured) | **13.4** | 14.0 |
| In 49 half yearly instalments commencing 1 May 1994 at an interest rate of 7.875% (secured) | **1.1** | 1.1 |
| In 30 half yearly instalments commencing 1 September 1995 at an interest rate of 9.125% (secured) | **2.0** | 2.4 |
| Secured loan from Tameside MBC at the Greater Manchester Metropolitan Debt Administration Fund rate (2006: 7.5% (2005: 7.7%)), repayable in 35 annual instalments from 31 March 1987 | **19.6** | 20.3 |
| 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 2006: 5.9%; 2005: 5.3%) | **1.6** | 1.8 |
| Non interest bearing volume related loan to Airport Petroleum Limited from third party | **0.3** | 0.3 |
| Non interest bearing volume related loan to Humberside International Airport Limited from third party | | – |
| | **115.1** | 120.3 |
| | **189.1** | 199.8 |

**Security of other borrowings**

Loans amounting to £187.2m (2005: £197.7m) 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 2006

## 19. Finance leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m |
| Amounts payable under finance leases: | **19.5** | 24.4 | **15.9** | 19.0 |
| Within one year | **3.9** | 4.8 | **2.5** | 3.1 |
| In the second to fifth years inclusive | **14.3** | 16.3 | **12.1** | 12.7 |
| After five years | **1.3** | 3.3 | **1.3** | 3.2 |
| | **19.5** | 24.4 | **15.9** | 19.0 |
| Less: future finance charges | **(3.6)** | (5.4) | | |
| Present value of lease obligation | **15.9** | 19.0 | | |
| Less: amount due for settlement within 12 months | | | **(2.5)** | (3.1) |
| Amount due for settlement after 12 months | | | **13.4** | 15.9 |

It is the Group's policy to leases certain of its fixtures and equipment under finance leases. The average lease term is 15 years. For the year ended 31 March 2006, the average effective borrowing rate was 6.4% (2005: 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 2006

## 20. 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 2006 was as follows:

| | **2006** | 2005 |
|---|---|---|
| | **£m** | £m |
| Fixed rate financial liabilities | **261.1** | 276.2 |
| Floating rate financial liabilities | **129.3** | 111.6 |
| Financial liabilities on which no interest is paid | **0.3** | 0.3 |
| | **390.7** | 388.1 |

Financial liabilities shown above are all denominated in sterling.

Financial liabilities are shown net of unamortised issue costs amounting to £0.6m (2005: £1.3m).

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 £87.5m (2005: £92.4m) of bank loans as fixed rate financial liabilities as at 31 March 2006.

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

| | **2006** | 2005 |
|---|---|---|
| | **£m** | £m |
| Weighted average annual interest rate | **8.50%** | 8.52% |
| Weighted average period for which interest rate is fixed | **7y 4m** | 8y 6m |

The weighted average period for non-interest bearing liabilities as at 31 March 2006 was 1 year (2005: 1 year).

The Group's interest rate swap, which has notionally been applied to bank loans, has a fixed interest rate of 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 2006 was as follows.

| | **2006** | 2005 |
|---|---|---|
| | **£m** | £m |
| In one year or less, or on demand | **14.9** | 14.4 |
| In more than one year but not more than two years | **9.2** | 8.2 |
| In more than two years but not more than five years | **247.8** | 199.2 |
| In more than five years | **118.8** | 166.3 |
| | **390.7** | 388.1 |

## 20. Financial instruments continued

### Undrawn committed borrowing facilities

As at 31 March 2006, the Group had an undrawn committed borrowing facility available amounting to £145m (2005: £155m).

| | **2006 Floating rate £m** | 2005 Floating rate £m |
|---|---|---|
| Expiring in more than two years | **145.0** | 155.0 |
| | **145.0** | 155.0 |

### Financial assets

**Interest rate profile of financial assets**

| | **2006 £m** | 2005 £m |
|---|---|---|
| Short term fixed rate, sterling deposits | **94.8** | 116.0 |
| | **94.8** | 116.0 |

All financial assets are denominated in sterling.

The fixed rate assets earn interest at rates between 4.49% and 4.65% per annum. 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 2006

## 20. 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 2006 and 2005. Fair value is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates.

Excluded from the following analyses are contingent liabilities with respect to guarantees provided to certain subsidiaries. These are detailed in Note 30.

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Book value** | **Fair value** | Book value | Fair value |
| | **£m** | **£m** | £m | £m |
| Bank loans and overdrafts | **(185.7)** | **(186.6)** | (169.3) | (170.1) |
| Other borrowings | **(189.1)** | **(246.7)** | (199.8) | (260.2) |
| Long term finance leases | **(15.9)** | **(15.9)** | (19.0) | (19.0) |
| | **(390.7)** | **(449.2)** | (388.1) | (449.3) |
| Cash at bank and in hand | **–** | **–** | – | – |
| Cash on short term deposit | **94.8** | **94.8** | 116.0 | 116.0 |
| | **94.8** | **94.8** | 116.0 | 116.0 |
| Net financial liabilities | **(295.9)** | **(354.4)** | (272.1) | (333.3) |

**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 £0.6m, 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 2006

## 21. Trade and other payables

| | **2006** | 2005 |
|---|---|---|
| | **£m** | £m |
| Trade creditors | **48.7** | 38.7 |
| Other taxation and social security | **3.7** | 2.3 |
| Other creditors | **2.7** | 3.3 |
| Accruals and deferred income | **41.7** | 50.7 |
| Capital-based grants | **1.4** | 1.1 |
| | **98.2** | 96.1 |

Trade creditor days were 54 days (2005: 43 days).

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

## 22. 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.

| | **2006** | 2005 |
|---|---|---|
| | **£m** | £m |
| Fair value of interest rate swap liability at 1 April | **(0.8)** | (1.2) |
| Movement in fair value | **(0.1)** | 0.4 |
| Fair value of interest rate swap liability at 31 March | **(0.9)** | (0.8) |

The notional principal amount of the outstanding interest rate swap contract at 31 March 2006 was £87.5m (2005: £92.4m).

At 31 March 2006, the fixed interest rate payable on the swap is 5.5% (2005: 5.5%) and the variable interest receivable rate is based upon LIBOR.

## 23. 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 £1.0m (2005: £0.7m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 March 2006, there were no contributions due in respect of the current reporting period that had not been paid over to the schemes (2005: £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 2006 amounted to £15.1m (2005: £5.3m), of which £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 £10.3m 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 2006

## 23. 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** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | **2006** | 2005 | 2004 | **2006** | 2005 | 2004 | **2006** | 2005 | 2004 |
| Rate of increase in salaries | **4.60%** | 4.40% | 4.40% | **4.60%** | 4.40% | 4.40% | **4.60%** | 4.40% | 4.40% | **4.60%** | 4.00% | 4.00% |
| Rate of increase of pensions in payment *(Note 1)* | **3.10%** | 2.90% | 2.90% | **3.10%** | 2.90% | 2.90% | **3.10%** | 2.90% | 2.90% | **3.10%** | 3.00% | 3.00% |
| Discount rate | **4.90%** | 5.40% | 5.50% | **4.90%** | 5.40% | 5.50% | **4.90%** | 5.40% | 5.50% | **4.90%** | 5.50% | 5.75% |
| Inflation assumption | **3.10%** | 2.90% | 2.90% | **3.10%** | 2.90% | 2.90% | **3.10%** | 2.90% | 2.90% | **3.10%** | 3.00% | 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 2006:

| | **Rate of return 2006 %** | **Value 2006 £m** | Rate of return 2005 % | Value 2005 £m | Rate of return 2004 % | Value 2004 £m |
|---|---|---|---|---|---|---|
| Equities and property | **7.16%** | **212.4** | 7.60% | 175.5 | 7.55% | 165.7 |
| Bonds | **4.57%** | **45.4** | 4.85% | 32.7 | 5.10% | 34.2 |
| Other | **4.56%** | **27.4** | 4.80% | 17.7 | 3.98% | 13.1 |
| | | **285.2** | | 225.9 | | 213.0 |

# Notes to the financial statements

for the year ended 31 March 2006

## 23. 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** ▪ | | | |
| **2006** | **250.8** | **(300.4)** | **(49.6)** |
| 2005 | 201.9 | (251.9) | (50.0) |
| 2004 | 192.6 | (252.8) | (60.2) |
| **EMIA** | | | |
| **2006** | **25.5** | **(40.8)** | **(15.3)** |
| 2005 | 17.6 | (30.5) | (12.9) |
| 2004 | 15.0 | (27.0) | (12.0) |
| **East Ridings** ▪ | | | |
| **2006** | **6.4** | **(9.0)** | **(2.6)** |
| 2005 | 4.3 | (7.2) | (2.8) |
| 2004 | 3.6 | (6.4) | (2.8) |
| **Airport Ventures** | | | |
| **2006** | **2.5** | **(2.7)** | **(0.2)** |
| 2005 | 2.0 | (2.2) | (0.2) |
| 2004 | 1.8 | (2.0) | (0.2) |
| **Total** | | | |
| **2006** | **285.2** | **(352.9)** | **(67.7)** |
| 2005 | 225.9 | (291.8) | (65.9) |
| 2004 | 213.0 | (288.2) | (75.2) |

▪ *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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2006 £m** | 2005 £m | **2006 £m** | 2005 £m | **2006 £m** | 2005 £m | **2006 £m** | 2005 £m | **2006 £m** | 2005 £m |
| Current Service Cost of Defined Benefit Schemes | **5.0** | 4.4 | **1.4** | 1.2 | **0.3** | 0.3 | **–** | – | **6.7** | 5.9 |
| Past service cost | **0.5** | 0.1 | **–** | – | **–** | – | **(0.1)** | – | **0.4** | 0.1 |
| Expected return on pension scheme assets | **(13.8)** | (13.3) | **(1.3)** | (1.1) | **(0.3)** | (0.3) | **(0.1)** | (0.1) | **(15.5)** | (14.8) |
| Interest on pension scheme liabilities | **13.6** | 13.8 | **1.7** | 1.5 | **0.4** | 0.4 | **0.1** | 0.1 | **15.8** | 15.8 |
| **Net amount charged against income** | **5.3** | 5.0 | **1.8** | 1.6 | **0.4** | 0.4 | **(0.1)** | – | **7.4** | 7.0 |

The above charge has been included in operating expenses.

# Notes to the financial statements

for the year ended 31 March 2006

## 23. Retirement benefits continued

**Movement in deficit during year**

| | GMPF | | EMIA | | East Riding | | Ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m | **£'000** | £m | **£m** | £m | **£m** | £m |
| Surplus / (Deficit) in scheme at beginning of year | **(50.0)** | (60.2) | **(12.9)** | (12.0) | **(2.8)** | (2.8) | **(0.2)** | (0.2) | **(65.9)** | (75.2) |
| Movement in year: | | | | | | | | | | |
| Current service cost | **(5.0)** | (4.4) | **(1.4)** | (1.2) | **(0.3)** | (0.3) | **–** | – | **(6.7)** | (5.9) |
| Past service cost | **(0.5)** | (0.1) | **–** | – | **–** | – | **0.1** | – | **(0.4)** | (0.1) |
| Contributions | **10.7** | 3.8 | **3.4** | 1.2 | **1.0** | 0.3 | **–** | 0.1 | **15.1** | 5.4 |
| Other finance income/(expense) | **0.2** | (0.5) | **(0.4)** | (0.4) | **(0.1)** | (0.1) | **–** | – | **(0.3)** | (1.0) |
| Actuarial gain/(loss) in SORIE | **(5.0)** | 11.4 | **(4.0)** | (0.5) | **(0.4)** | 0.1 | **(0.1)** | (0.1) | **(9.5)** | 10.9 |
| **Deficit in Scheme at end of the year** | **(49.6)** | (50.0) | **(15.3)** | (12.9) | **(2.6)** | (2.8) | **(0.2)** | (0.2) | **(67.7)** | (65.9) |

The total actuarial gain / (loss) for the 2004 and 2003 period was £13.3m and (£58.5m) respectively.

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

| | GMPF | | EMIA | | East Riding | | Ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m |
| Actual return less expected return on pension scheme assets | **31.7** | 9.4 | **2.8** | (0.3) | **0.8** | 0.2 | **0.4** | – | **35.7** | 9.3 |
| Experience gains/(losses) arising on scheme liabilities | **(0.4)** | 5.8 | **2.1** | 0.5 | **–** | 0.1 | **–** | – | **1.7** | 6.4 |
| Changes in assumptions underlying the present value of the scheme liabilities | **(36.3)** | (3.8) | **(8.9)** | (0.7) | **(1.2)** | (0.2) | **(0.5)** | (0.1) | **(46.9)** | (4.8) |
| **Actuarial gain / (loss) recognised in SORIE** | **(5.0)** | 11.4 | **(4.0)** | (0.5) | **(0.4)** | 0.1 | **(0.1)** | (0.1) | **(9.5)** | 10.9 |

# Notes to the financial statements

for the year ended 31 March 2006

## 23. Retirement benefits continued

**Movement in present value of defined benefit obligations**

| | GMPF | | EMIA | | East Riding | | Ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m | **£'000** | £m | **£m** | £m | **£m** | £m |
| 1 April | **251.9** | 252.8 | **30.5** | 27.0 | **7.2** | 6.4 | **2.2** | 2.0 | **291.8** | 288.2 |
| Service cost | **5.5** | 4.5 | **1.4** | 1.2 | **0.3** | 0.3 | **(0.1)** | – | **7.1** | 6.0 |
| Benefits paid and employee contributions | **(7.3)** | (6.8) | **–** | 0.6 | **(0.1)** | – | **–** | – | **(7.0)** | (6.2) |
| Interest cost | **13.6** | 13.8 | **1.7** | 1.5 | **0.4** | 0.4 | **0.1** | 0.1 | **15.8** | 15.8 |
| Adjustment for valuation data | **–** | (10.4) | **–** | – | **–** | – | **–** | – | **–** | (10.4) |
| Actuarial gains and losses | **36.7** | (2.0) | **7.2** | 0.2 | **1.2** | 0.1 | **0.5** | 0.1 | **45.2** | (1.6) |
| **31 March** | **300.4** | 251.9 | **40.8** | 30.5 | **9.0** | 7.2 | **2.7** | 2.2 | **352.9** | 291.8 |

**Movement in fair value of scheme assets**

| | GMPF | | EMIA | | East Riding | | Ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m | **£'000** | £m | **£m** | £m | **£m** | £m |
| 1 April | **201.9** | 192.6 | **17.6** | 15.0 | **4.4** | 3.6 | **2.0** | 1.8 | **225.9** | 213.0 |
| Expected return on scheme assets | **13.8** | 13.3 | **1.3** | 1.1 | **0.3** | 0.3 | **0.1** | 0.1 | **15.5** | 14.8 |
| Contributions | **10.7** | 3.8 | **3.4** | 1.2 | **1.0** | 0.3 | **–** | 0.1 | **15.1** | 5.4 |
| Benefits paid | **(7.3)** | (6.8) | **–** | 0.6 | **(0.1)** | – | **–** | – | **(7.0)** | (6.2) |
| Adjustment for valuation data | **–** | (10.4) | **–** | – | **–** | – | **–** | – | **–** | (10.4) |
| Actuarial gains and losses | **31.7** | 9.4 | **3.2** | (0.3) | **0.8** | 0.2 | **0.4** | – | **35.7** | 9.3 |
| **31 March** | **250.8** | 201.9 | **25.5** | 17.6 | **6.4** | 4.4 | **2.5** | 2.0 | **285.2** | 225.9 |

**History of experience gains and losses**

| | GMPF | | EMIA | | East Riding | | Ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m | **£'000** | £m | **£m** | £m | **£m** | £m |
| Difference between actual and expected returns on assets amount | **31.7** | 9.4 | **2.8** | (0.3) | **0.8** | 0.2 | **0.4** | – | **35.7** | 9.3 |
| % of scheme assets | **12.6%** | 4.6% | **11.1%** | (1.7%) | **13.1%** | 4.4% | **17.0%** | 3.0% | **18.5%** | 14.0% |
| Experience gains and losses on liabilities amount | **(0.4)** | 5.8 | **2.1** | 0.5 | **–** | 0.1 | **–** | – | **1.7** | 6.4 |
| % of scheme liabilities | **(0.1%)** | 2.3% | **5.1%** | 1.8% | **(20.0%)** | 1.0% | **2.0%** | (1.0%) | **0.9%** | 0% |
| Total amount recognised in SRIE | **(5.0)** | 11.4 | **(4.0)** | (0.5) | **(0.4)** | 0.1 | **(0.1)** | (0.1) | **(9.5)** | 10.9 |
| % of scheme liabilities | **(1.7%)** | 4.5% | **(9.7%)** | (1.6%) | **(4.3%)** | 1.4% | **(5.0%)** | (3.0%) | **(4.9%)** | 5.0% |

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 2006

## 24. 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 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** |
| At 1 April 2004 | 46.4 | 142.7 | (22.6) | (1.0) | 9.9 | (5.4) | 170.0 |
| Charge to income | 1.0 | 3.6 | (0.5) | (0.1) | – | (0.2) | 3.8 |
| Charge to equity | – | – | 3.3 | – | (1.7) | 0.1 | 1.7 |
| **At 31 March 2005** | **47.4** | **146.3** | **(19.8)** | **(1.1)** | **8.2** | **(5.5)** | **175.5** |

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 purpose:

| | **2006 £m** | 2005 £m |
|---|---|---|
| Deferred tax liabilities | **(206.1)** | (201.9) |
| Deferred tax assets | **28.1** | 26.4 |
| | **(178.0)** | (175.5) |

At the balance sheet date, the Group had unused tax losses of £6.6m (2005: £6.6m) available for offset against future profits. A deferred tax asset has been recognised in respect of £1.2m (2005: £1.1m) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of £2.5m (2005: £2.9m) due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

## 25. Other non-current liabilities

| | **2006 £m** | 2005 £m |
|---|---|---|
| Other creditors | **–** | 0.8 |
| Accruals and deferred income | **7.1** | 7.4 |
| Capital-based grants | **18.9** | 21.0 |
| | **26.0** | 29.2 |

## 26. Share capital

| | **Number** | **£m** |
|---|---|---|
| **Authorised, allotted, called up and fully paid** | | |
| 204,280,000 ordinary shares of £1 each | **204,280,000** | **204.3** |
| **At 31 March 2005 and 31 March 2006** | **204,280,000** | **204.3** |

# Notes to the financial statements

for the year ended 31 March 2006

## 27. Reserves

| | Revaluation reserve £m | Profit and loss account £m |
|---|---|---|
| At 1 April 2005 | 341.2 | 218.6 |
| Actuarial losses on retirement benefit liabilities | – | (9.5) |
| Deferred tax on retirement benefits actuarial movements | – | 2.9 |
| Changes in fair value of cash flow hedges | – | (0.1) |
| Transfer of investment properties | 31.0 | (31.0) |
| Transfer of deferred taxation on investment properties | (9.3) | 9.3 |
| Profit for the year after dividends | – | 35.7 |
| Depreciation transfer from revaluation reserve to profit and loss account | (14.8) | 14.8 |
| **At 31 March 2006** | **348.1** | **240.7** |

## 28. Capital commitments

| | **2006 £m** | 2005 £m |
|---|---|---|
| Capital expenditure that has been contracted for but has not been provided for in the financial statements | **13.9** | 23.3 |

## 29. Grants

| | **2006 £m** | 2005 £m |
|---|---|---|
| During the year to 31 March 2006 the Group made claims for and received government grants against approved capital expenditure amounting to: | **–** | 0.3 |

## 30. Contingent liabilities

The Group has entered into a cross guarantee, up to a maximum of £20m in aggregate, for any bank advances made to certain subsidiary undertakings in existence as at 31 March 2006. No loss is expected to arise from this arrangement.

The Group has entered into a mortgage debenture and guarantee in respect of the borrowings of Manchester Airport PLC amounting to £187.2m (2004: £197.7m). No loss is expected to arise from this arrangement.

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

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 2006

## 31. Operating lease arrangements

At 31 March 2006 the Group has annual commitments under non-cancellable operating leases which fall due as follows:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Land £m** | **Other £m** | Land £m | Other £m |
| Expiring within one year | **–** | **0.1** | – | – |
| Expiring between two and five years inclusive | **0.1** | **0.2** | – | 0.1 |
| Expiring in over five years | **10.5** | **–** | 9.9 | – |
| | **10.6** | **0.3** | 9.9 | 0.1 |

The total commitment due is principally one land lease with a duration in excess of 50 years. The amount payable is contingent upon an index of certain elements of Group revenues and Group property performance. The minimum 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 £92.2m (2005: £97.6m). The Manchester Airport Group PLC made loan repayments of £5.4m (2005: £2.2m) to MCC during the year and paid interest of £9.8m (2005: £10.1m).

Included in external charges are charges for rent and rates to MCC amounting to £21.1m (2005: £17.0m).

During the year, The Manchester Airport Group PLC received income from MCC of £0.5m for consultancy and estate regeneration services.

**Other related party transactions**

Seedcorn Investment Management Limited is a Company owned by Paul Barraclough, a director of Worknorth Limited and Worknorth II Limited. During the year Seedcorn Investment Management Limited charged Worknorth II Limited £105,000 (2005: £89,000) for services provided on normal contractual terms. As at 31 March 2005, the balance owing to Seedcorn Investments amounted to £9,632 (2004: £7,510).

# Notes to the financial statements

for the year ended 31 March 2006

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

| | 2006 £m | 2005 £m |
|---|---|---|
| **Operating profit** | **84.0** | 94.1 |
| Depreciation on tangible fixed assets | **67.5** | 68.5 |
| Profit on disposal of tangible fixed assets | **(0.2)** | (0.3) |
| Decrease / (increase) in debtors | **7.5** | (12.5) |
| Release of grants | **(1.5)** | (1.3) |
| (Decrease) / increase in creditors | **(2.6)** | 4.5 |
| (Decrease) / increase in retirement benefits provision | **(7.7)** | 1.5 |
| Increase in other provisions | **–** | 0.1 |
| **Net cash inflow from operating activities** | **147.0** | 154.6 |

## 34. Reconciliation of net cash flow to movement in net debt

| | 2006 £m | 2005 £m |
|---|---|---|
| (Decrease) / increase in cash and cash equivalents in the period | **(26.9)** | 15.0 |
| Add back: Cash outflow from management of liquid resources | **28.8** | 53.7 |
| Add back: Dividends paid | **(25.0)** | (16.5) |
| **Change in net debt resulting from cash flows** | **(23.1)** | 52.2 |
| Other non-cash movements | **(0.7)** | (1.3) |
| **Movements in net debt** | **(23.8)** | 50.9 |
| Opening net debt | **(272.1)** | (323.0) |
| **Closing net debt** | **(295.9)** | (272.1) |

# Notes to the financial statements

for the year ended 31 March 2006

## 35. Reconciliation of results previously reported under UK GAAP to IFRS

### Consolidated balance sheet as at 31 March 2004

| | Note | UK GAAP accounts 31 March 2004 £m | Effect of adoption of IFRS £m | IFRS accounts 31 March 2004 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property plant and equipment | | 1,361.9 | – | 1,361.9 |
| Available for sale investments | E | 3.7 | (3.7) | – |
| Deferred tax assets | B | – | 28.6 | 28.6 |
| | | **1,365.6** | **24.9** | **1,390.5** |
| **Current assets** | | | | |
| Trade and other receivables | | 36.1 | 0.1 | 36.2 |
| Cash and cash equivalents | | 100.4 | – | 100.4 |
| | | **136.5** | **0.1** | **136.6** |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Borrowings | | (7.4) | – | (7.4) |
| Trade and other payables | A, G | (110.3) | 16.5 | (93.8) |
| Current tax liabilities | | (13.0) | – | (13.0) |
| | | **(130.7)** | **16.5** | **(114.2)** |
| **Net current assets** | | **5.8** | **16.6** | **22.4** |
| **Non-current liabilities** | | | | |
| Borrowings | | (416.0) | – | (416.0) |
| Derivative financial instruments | E | – | (1.2) | (1.2) |
| Retirement benefit liabilities | A | (5.8) | (68.9) | (74.7) |
| Deferred tax liabilities | B | (38.8) | (159.8) | (198.6) |
| Other non-current liabilities | A | (25.1) | (0.3) | (25.4) |
| | | **(485.7)** | **(230.2)** | **(715.9)** |
| **Net assets** | | **885.7** | **(188.7)** | **697.0** |
| **Shareholders' equity** | | | | |
| Share capital | | 204.3 | – | 204.3 |
| Revaluation reserve | B | 475.6 | (142.7) | 332.9 |
| Retained earnings | | 205.8 | (46.0) | 159.8 |
| **Total equity** | | **885.7** | **(188.7)** | **697.0** |

# Notes to the financial statements

for the year ended 31 March 2006

## 35. Reconciliation of results previously reported under UK GAAP to IFRS continued

### Consolidated balance sheet as at 31 March 2005

| | Note | UK GAAP accounts 31 March 2005 £m | Effect of adoption of IFRS £m | IFRS accounts 31 March 2005 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property plant and equipment | D | 1,370.0 | 0.1 | 1,370.1 |
| Available for sale investments | E | 3.5 | (3.5) | – |
| Deferred tax assets | B | – | 26.4 | 26.4 |
| | | **1,373.5** | **23.0** | **1,396.5** |
| **Current assets** | | | | |
| Trade and other receivables | | 48.5 | – | 48.5 |
| Cash and cash equivalents | | 116.0 | – | 116.0 |
| | | **164.5** | **–** | **164.5** |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Borrowings | | (14.4) | – | (14.4) |
| Trade and other payables | F, G | (120.7) | 24.6 | (96.1) |
| Current tax liabilities | | (14.9) | – | (14.9) |
| | | **(150.0)** | **24.6** | **(125.4)** |
| **Net current assets** | | **14.5** | **24.6** | **39.1** |
| **Non-current liabilities** | | | | |
| Borrowings | | (373.7) | – | (373.7) |
| Derivative financial instruments | E | – | (0.8) | (0.8) |
| Retirement benefit liabilities | A | (6.4) | (59.5) | (65.9) |
| Deferred tax liabilities | B | (39.5) | (162.4) | (201.9) |
| Other non-current liabilities | | (29.2) | – | (29.2) |
| | | **(448.8)** | **(222.7)** | **(671.5)** |
| **Net assets** | | **939.2** | **(175.1)** | **764.1** |
| **Shareholders' equity** | | | | |
| Share capital | | 204.3 | – | 204.3 |
| Revaluation reserve | B | 487.5 | (146.3) | 341.2 |
| Retained earnings | | 230.2 | (69.1) | 161.1 |
| Result for year | | 17.2 | 40.3 | 57.5 |
| **Total equity** | | **939.2** | **(175.1)** | **764.1** |

## 35. Reconciliation of results previously reported under UK GAAP to IFRS continued

**Consolidated profit and loss account for the year ended 31 March 2005**

| | Note | UK GAAP accounts 31 March 2005 £m | Effect of adoption of IFRS £m | IFRS accounts 31 March 2005 £m |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| **Revenue** | | **373.5** | **–** | **373.5** |
| Employee benefit costs | A | (78.0) | (1.6) | (79.6) |
| Depreciation and amortisation | D | (68.6) | 0.1 | (68.5) |
| Other operating charges | F, E | (132.1) | 0.8 | (131.3) |
| **Group operating profit** | | **94.8** | **(0.7)** | **94.1** |
| Movement in investment fair values | E | – | (0.7) | (0.7) |
| Movement in investment property fair values | C | – | 36.3 | 36.3 |
| Finance income | | 1.4 | – | 1.4 |
| Finance costs | | (29.8) | – | (29.8) |
| Profit before tax | | **66.4** | **34.9** | **101.3** |
| Taxation | | (24.2) | (3.1) | (27.3) |
| **Profit after tax** | | **42.2** | **31.8** | **74.0** |
| Equity dividends | G | (25.0) | 8.5 | (16.5) |
| **Profit for the year attributable to equity shareholders** | | **17.2** | **40.3** | **57.5** |

**Note A – IAS 19 'Employee benefits'**

Under IAS 19, the Group is required to recognise an estimate of any deficit or surplus in its defined benefit pension schemes in the balance sheet. The Income statement charge reflects actuarial assumptions over the life of the scheme rather than cash contributions as under UK GAAP.

The movement on the pension deficit in the balance sheet, resulting from variations in actual performance against actuarial assumptions, is shown through the Statement of Recognised Income and Expense ('SORIE'), the IFRS equivalent of the Statement of Total Recognised Gains and Losses ('STRGL').

The Group has recognised a transitional balance sheet adjustment against opening reserves and recognised additional charges in the Income statement relating to holiday pay benefits. IAS 19 requires a strict matching of salary costs to the respective reporting period.

The additional charge and transitional adjustment represents elements of holiday entitlement that can be carried forward to the subsequent reporting period.

**Note B – IAS 12 'Income taxes'**

IAS 12 requires that all temporary differences are recognised as a deferred tax asset or liability on the balance sheet. Temporary differences arise where the tax base of an item differs to its accounting base.

Transitional adjustments have been made to recognise temporary differences relating to deferred tax liabilities on historic revaluations of operational assets and on fair value adjustments arising from pre March 2004 acquisitions.

IAS 12 requires that the deferred tax effects of temporary differences are recognised in the respective class of equity that the underlying adjustment is recognised in. Consequently deferred taxes on revalued assets are recognised in the revaluation reserve.

IAS 12 will not impact the cash tax charge, however the effective rate of the tax charge recorded in the Income statement will reduce. The recognition of additional temporary differences on the balance sheet will normalise the tax charge towards the current UK rate of 30%, principally because the deferred tax liability recognised on transition for revalued assets will unwind through the Income statement tax charge over the life of the revalued assets.

**Note C – IAS 40 'Investment properties'**

IFRS requires an entity to choose between the use of a fair value or cost model for reporting Investment properties. The Group has chosen the fair value model of reporting. Where the fair value model is chosen, movements in fair values should be presented on the face of the Income statement. Valuations are carried out an an annual basis at the financial year end, consequently there are no fair value movements under IAS 40 reported in interim periods.

The fair value movement is reported after operating profit, as it is not a core element of the business. Under IAS 12 'Income taxes', a corresponding deferred tax balance is recognised on fair value movements for investment properties.

**Note D – IFRS 3 'Business Combinations'**

Under UK GAAP, the Group amortised the carrying value of goodwill arising on the acquisitions of Nottingham East Midlands Airport and Bournemouth Airport over a life of 20 years.

IFRS 3 does not permit the systematic amortisation of goodwill over a specified period. Instead an impairment review of goodwill should be carried out annually to determine if the value of goodwill is still supportable. Consequently amortisation charged to profit under UK GAAP is reversed under IFRS, increasing the carrying value of goodwill and increasing operating profits.

The Group has reviewed the carrying value of Goodwill and this is supportable based on the underlying performances of the businesses.

The Goodwill balance at the year-end is not material to the Group and as such it has been disclosed in the Property, Plant and Equipment balance.

**Note E – IAS 39 'Financial instruments: Recognition and measurement'**

IAS 39 requires that any derivative financial instruments are recognised in the balance sheet as an asset or liability at fair value. The Group has an interest rate swap, which has the effect of fixing the interest rate on an element of the Group's variable rate debt.

The swap meets the criteria outlined in IAS 39 for a derivative financial instrument and consequently the fair value of the interest rate swap has been brought on balance sheet.

Under UK GAAP financial derivatives were reported by disclosure only. The swap has been designated as a highly effective cash flow hedge and movements in the fair value of the swap are reported in reserves.

A corresponding deferred tax balance is recognised on the fair value of the interest rate swap.

The Group maintains a portfolio of Seedcorn investments, which were reported at historic cost under UK GAAP. IAS 39 requires the investments to be fair valued at each reporting period. On transition the difference between historic cost and the fair value of investments has been recognised against opening reserves. In subsequent reporting periods, amounts previously provided under UK GAAP against profit and loss are reversed, whilst additions are fair valued as they arise in the reporting period.

**Note F – IAS 37 'Provisions, contingent liabilities and contingent assets'**

UK GAAP and IAS have similar requirements for reporting provisions, however the Group has determined that that there are a small number of bad debt provisions, which require release under IAS. The release has been recognised on transition through opening reserves.

**Note G – IAS 10 'Events after the balance sheet date'**

Under UK GAAP, dividends were reported in the period to which they related even if authorisation for the dividend occurred after the balance sheet date. Under IAS, dividends can only be reported if they are approved by the balance sheet date. Consequently a timing difference arises under IFRS, where dividends may be reported in periods subsequent to which they relate.

# 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 2006, 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. We have also, at the request of the Directors, audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of The Manchester Airport Group PLC for the year ended 31 March 2006.

### Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the 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 if, in our opinion, the Directors' Report is not consistent with the parent company financial statements. We also 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 transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Statement, the Review of Operations, the Financial Review, Corporate Responsibility, the Report on Corporate Governance, the Board of Directors, the unaudited part of the Directors' Remuneration Report, the Directors Report and the Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent compant 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company 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 parent company 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited.

### Opinion

In our opinion:

- The parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company at 31 March 2006; and
- 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; and
- The information given in the Directors' Report is consistent with the financial statements.

**PricewaterhouseCoopers LLP**
**Chartered Accountants and Registered Auditors**
**Manchester**
12 June 2006

# 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.

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.

**Change of Accounting Policy**

The Company has adopted FRS 21 "Events after the balance sheet date" during the reporting period. The effect of the change in accounting policy is that dividends are only recognised as a liability when shareholder approval has been granted. Previously dividends were reported as a liability when proposed.

Comparative figures have been restated accordingly. The effect of the change on the comparative period results is shown in Notes 10 and 11 of the Financial Statements.

**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 – 25 |
| 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.

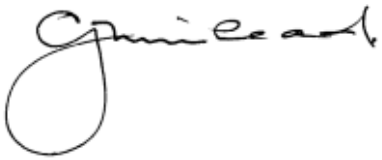
# Company balance sheet

as at 31 March 2006

| | Notes | 2006 £m | Restated 2005 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 3 | **0.4** | 0.3 |
| Investments | 4 | **349.9** | 349.9 |
| | | **350.3** | 350.2 |
| **Current assets** | | | |
| Debtors | 5 | **210.2** | 137.9 |
| Cash at bank and in hand | 6 | **95.6** | 116.0 |
| | | **305.8** | 253.9 |
| **Creditors: amounts falling due within one year** | 7 | **(7.3)** | (3.9) |
| **Net current assets / liabilities** | | **298.5** | 250.0 |
| **Total assets less current liabilities** | | **648.8** | 600.2 |
| **Creditors: amounts falling due after more than one year** | 8 | **(421.1)** | (379.7) |
| **Net assets** | | **227.7** | 220.5 |
| **Capital and reserves** | | | |
| Called up share capital | 9 | **204.3** | 204.3 |
| Profit and loss account | 10 | **23.4** | 16.2 |
| **Equity shareholders' funds** | | **227.7** | 220.5 |

The financial statements on pages 77 to 82 were approved by the Board of Directors on 8 June 2006 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 2006

## 1. Auditors' remuneration

| | **2006** | 2005 |
|---|---|---|
| | **£m** | £m |
| Auditors' remuneration: | | |
| Audit | **0.1** | 0.1 |
| Non-audit services: | | |
| Tax services | **0.1** | 0.1 |
| Other non-audit services | **–** | 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 profit attributable to the shareholders includes a profit of £7.2m before dividends payable, dealt with in the financial statements of the Company.

## 3. Tangible fixed assets

| | Plant and machinery, motor vehicles £m |
|---|---|
| **Cost** | |
| At 1 April 2005 | 0.4 |
| Additions | 0.2 |
| Disposals | – |
| **At 31 March 2006** | **0.6** |
| **Depreciation** | |
| At 1 April 2005 | 0.1 |
| Charge for the year | 0.1 |
| Disposals | – |
| **At 31 March 2006** | **0.2** |
| **Net book value** | |
| **At 31 March 2006** | **0.4** |
| Net book value | |
| At 31 March 2005 | 0.3 |

## 4. Fixed asset investments

| | £m |
|---|---|
| **Subsidiary undertakings** | |
| Cost and net book value at 31 March 2006 and 31 March 2005 | 349.9 |

Particulars of principal subsidiary undertakings are listed on page 82, which forms part of these financial statements.

# Notes to the financial statements

for the year ended 31 March 2006

## 5. Debtors

| | 2006 £m | Restated 2005 £m |
|---|---|---|
| Other debtors | **1.3** | 0.5 |
| Amounts due from subsidiary undertakings | **207.3** | 136.4 |
| Prepayments and accrued income | **1.6** | 1.0 |
| | **210.2** | 137.9 |

## 6. Cash at bank and in hand

| | 2006 £m | 2005 £m |
|---|---|---|
| Cash accessible on demand | **0.8** | – |
| Short term deposits | **94.8** | 116.0 |
| | **95.6** | 116.0 |

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

| | 2006 £m | Restated 2005 £m |
|---|---|---|
| Bank overdrafts | **–** | 0.1 |
| Trade creditors | **0.6** | 0.2 |
| Amounts owed to subsidiary undertakings | **1.2** | 0.8 |
| Other creditors | **–** | 0.1 |
| Accruals and deferred income | **5.5** | 2.7 |
| | **7.3** | 3.9 |

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

| | 2006 £m | 2005 £m |
|---|---|---|
| Bank loans | **179.4** | 168.7 |
| Amounts owed to subsidiary undertakings | **241.7** | 211.0 |
| | **421.1** | 379.7 |

# Notes to the financial statements

for the year ended 31 March 2006

## 9. Share capital

| | Number | £m |
|---|---|---|
| **Authorised, allotted, called up and fully paid** | | |
| 204,280,000 ordinary shares at £1 each | 204,280,000 | 204.3 |
| **At 31 March 2005 and 31 March 2006** | **204,280,000** | **204.3** |

## 10. Reserves

| | As restated **Profit and loss account £m** |
|---|---|
| At 1 April 2005 | 27.2 |
| Restated for change in accounting policy under FRS 21 | (11.0) |
| Profit for the year | 7.2 |
| **At 31 March 2006** | **23.4** |

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

| | **2006 £m** |
|---|---|
| **Company** | |
| Loss for the financial year | (3.8) |
| Dividends receivable from subsidiary undertakings | 36.0 |
| External dividends payable | (25.0) |
| **Net increase in equity shareholders' funds** | **7.2** |
| Opening equity shareholders' funds as previously reported | 231.5 |
| Restatement of equity shareholders' funds for change of accounting policy | (11.0) |
| **Closing equity shareholders' funds** | **227.7** |

## 12. Contingent liabilities

The Company has entered into a cross guarantee, up to a maximum of £20 million in aggregate, for any bank advances made to certain subsidiary undertakings in existence as at 31 March 2006. 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 | 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 2006 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, Manchester M90 1QX**

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