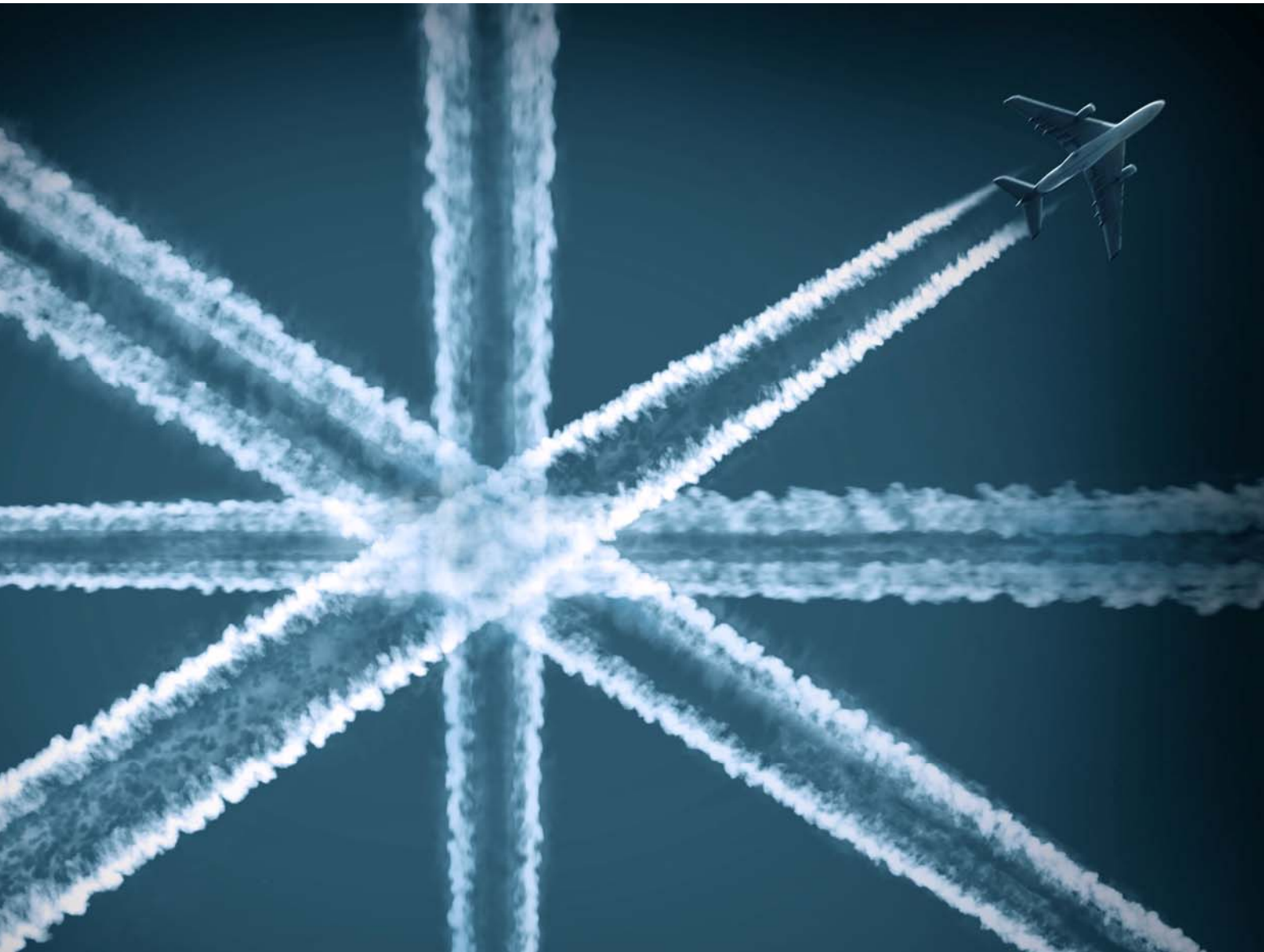




# Manchester Airports Group

FY14 Investor Report

July 2014



## Important Notice

This investor report is prepared in accordance with the requirements of the Common Terms Agreement dated 14 February 2014 between, among others, the Issuer, the Obligors and Citicorp Trustee Company Limited ("the Common Terms Agreement"). It summarises certain information contained in the Manchester Airport Group Investments Limited and Manchester Airports Holdings Limited reports and financial statements for the year ended 31 March 2014 and the Annual Presentation and Compliance Certificate for the period then ended.

Defined terms used in this document have the same meanings as set out in the Master Definitions Agreement unless otherwise stated.

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## 1. Business Update

Further information is available at [magworld.co.uk/investors](http://magworld.co.uk/investors) and in the Manchester Airport Group Investments Limited and Manchester Airports Holdings Limited reports and financial statements for the year ended 31 March 2014, as well as the Annual Presentation and Compliance Certificate for the period then ended.

MAG has delivered the commercial and operational strategy first described to investors in February 2014 and the integration of Stansted is ahead of plan. Prospects going forward are strong with the Group benefitting from the increased scale following the Stansted acquisition and management firmly focused on commercial development, operational efficiency and investment in long-term infrastructure.

### Passenger numbers

In the year ended 31 March 2014, a total of 43.8 million passengers (2013: 42.0million) travelled through a MAG airport, an increase of 1.8 million passengers or 4.3%.

Passengers (m)	FY14	FY13	Variance (m)	Variance (%)
MAN	20.8	19.8	+1.0	+4.9%
STN	18.0	17.5	+0.5	+2.7%
EMA	4.3	4.0	+0.4	+9.0%
BOH	0.7	0.7	(0.0)	(0.3%)
<b>Total</b>	<b>43.8</b>	<b>42.0</b>	<b>+1.8</b>	<b>+4.3%</b>

Source: MAG Annual Report & Accounts FY14

Manchester ("MAN"), Stansted ("STN") and East Midlands ("EMA") all grew passenger numbers while Bournemouth ("BOH") was broadly stable.

Passenger numbers at MAN were up 1.0 million or 4.9% for the year ended 31 March 2014, due mainly to Ryanair, easyJet and Jet2 basing additional aircraft, the continued development of the Flybe domestic hub, further growth from Middle East carriers, the launch of Virgin's domestic service to London and a 1% increase in average load factors.

The route network continues to diversify further with the announcement of the first direct link from Manchester to China (commencing Winter 2014) as well as new long-haul routes to

Charlotte, Jeddah, and Toronto. There was also an extension of European and short-haul connectivity with important announcements from Ryanair, easyJet, Thomson, Thomas Cook and Monarch during the period and in recent months.

Passenger numbers at STN were up 0.5 million or 2.7% for the year ended 31 March 2014. Passenger numbers are now back on a positive trajectory at STN after a number of years of decline.

STN has excellent European connectivity and significant progress has also been made in broadening the network and developing a long-haul offering. Thomas Cook announced the first direct long-haul routes from STN with services to Las Vegas, Cancun and Orlando for the Summer 2014 season. Ryanair's announcement of its Winter 2014 schedule included 8 new routes, increased frequencies and improved schedules on 36 routes and growth from 490 to 700 weekly flights.

## Financial Results for FY14

£m	FY14 Actual	FY13 Proforma	Variance (£)	Variance (%)
Aeronautical	342.7	320.9	+21.8	+6.8%
Car Parking	104.4	93.9	+10.5	+11.2%
Retail	119.4	120.3	(0.9)	(0.7%)
Other	104.7	102.4	+2.3	+2.2%
<b>Revenue</b>	<b>671.2</b>	<b>637.5</b>	<b>+33.7</b>	<b>+5.3%</b>
Employee costs	153.5	146.9	+6.6	+4.5%
Non-employee costs	277.2	255.4	+21.8	+8.5%
<b>Operating Costs</b>	<b>430.7</b>	<b>402.3</b>	<b>+28.4</b>	<b>+7.1%</b>
Profit on disposal	1.4	-	+1.4	n/a
<b>EBITDA</b>	<b>241.9</b>	<b>235.2</b>	<b>+6.7</b>	<b>+2.8%</b>

Source: MAG Annual Report & Accounts FY14, MAG Pro Forma Consolidated Financial Statements (Prospectus, February 2014). The prior period comparatives are adjusted for the amendment to IAS19 and the classification of FY13 Revenue has been adjusted to align it with the current management reporting view.

The growth in passenger numbers combined with yield improvements and on-going underlying cost management translated into a strong set of financial results that are significantly ahead of our Business Plan.

Group EBITDA increased £7 million to £242 million (+2.8%) with a particularly encouraging set of results from the Legacy MAG businesses.

- Legacy MAG: £153.0 million (+9.8%); and
- STN: £88.9 million (-7.3%).

STN reported EBITDA was down £7 million year-on-year but was impacted by a number of non-recurring items in connection with the integration and transformation programmes.

On an underlying basis STN EBITDA increased by £2 million and in the first full year of ownership was £6 million ahead of our Business Plan. The acceleration in passenger growth in the latter part of the year reinforced by the integration and transformation strategies are already yielding benefits and generating a strong and growing run rate into FY15.

## Aeronautical Revenue

Group aeronautical revenue increased by £22 million to £343 million (+6.8%). Robust growth in passenger numbers at MAN (+4.9%), EMA (+9.0%) and STN (+2.7%) drives more than 60% of the growth.

Management action to maximise per passenger returns has boosted the aeronautical yield from £7.59/pax to £8.06/pax in Legacy MAG.

STN aeronautical revenue is stable year-on-year with passenger growth offset by a reduction in aeronautical yield from £7.71/pax to £7.49/pax. Long-term commercial contracts incentivise growth but will reduce aeronautical yields. Passenger growth at STN was focused in the second half of FY14 and FY15 has started strongly.

- FY14 H1 y-on-y growth: +1.4%; and
- FY14 H2 y-on-y growth: +4.5%.

## Retail Revenue

Retail revenue is down by £1 million to £119 million (-0.7%). Retail revenue in Legacy MAG continues to grow and represents some of the highest retail yields in the market with the reduction in yield from £2.93/pax to £2.86/pax due to an evolving mix of EU and non-EU passengers and renewal of some long-term contracts at current market rates.

Retail revenue at STN is down £3 million year-on-year. The disruption caused by the terminal re-development plan at STN will depress yields in the short-term as planned. Once the terminal re-development is completed the retail yield is expected to increase significantly. A number of commercial agreements are already in place to support this.

The retail yield differential between STN and Legacy MAG exceeds £0.30/pax and illustrates the opportunity.

## Car Parking Revenue

Car parking revenue increased by £11 million to £104 million (+11.2%). Growth in passenger numbers drives 40% of the increase but yields have increased significantly across all of the airports:

- Legacy MAG increased from £2.44/pax to £2.60/pax (+6.4%); and
- STN increased from £1.95/pax to £2.07/pax (+6.5%).

There has also been significant capital investment in car parking capacity and facilities:

- 4,000 extra spaces at MAN with 9,000 more planned for FY15;
- 1,400 additional spaces at EMA; and
- The Group now has over 72,000 car parking spaces.

At the same time, the Group has been broadening the appeal of different product offerings by rolling out the Meet & Greet and Jet Parks products to STN as of July 2013.

## STN integration

The STN integration programme is ahead of plan and will provide a resilient platform for growth through the commercialisation of key activities and operational improvements:

- Significant long term commercial contracts with Ryanair and easyJet have significantly de-risked revenue growth:
  - Ryanair to increase passenger numbers at STN from 13 million to over 18 million by 2018 and 21 million by 2023; and
  - easyJet to increase passenger numbers at STN from 2.8 million p.a. to over 6 million by 2018.
- New car parking products introduced and distribution channels opened;
- Major long-term concessions agreements underpinning the terminal re-development have been agreed and more are progressing through the tender process;
- All commercial negotiations and relationships managed centrally from Day 1;
- Tight cost control and focus on delivery of operational efficiency programmes;
- IT separation from Heathrow completed five months ahead of plan in March 2014; and
- Full supply chain review and leverage of Group-wide scale.

## Operating Costs

Operating costs (excluding depreciation) increased by £28 million to £431 million (+7.1%).

The Legacy MAG businesses account for £21 million of the increase with the majority relating to marketing support for aviation development and other income related costs that are EBITDA incremental. Increases in other costs due to inflationary pressures are largely offset by the success of various cost efficiency initiatives.



STN operating costs increased by £8 million due principally to the impact of a number of non-recurring items in connection with the integration and transformation programmes:

- Airports Commission, Q6 Review and regulatory costs;
- TSAs and costs of separation; and
- Increase in pension contributions as part of the acquisition.

These costs were envisaged in the STN acquisition plan and are lower than forecast in our Business Plan.

## Capital Expenditure

MAG continues to benefit from a well-invested asset base and discretionary capital expenditure is subject to need and a robust investment appraisal process. Total capital expenditure for the year ended 31 March 2014 was £135 million including the new £20 million air traffic control tower opening at MAN, the £12m EMA terminal redevelopment nearing completion, and continued expansion in the car park estate at MAN and EMA.

MAG is also investing £40 million in the re-development of the STN terminal with retail partners contributing up to another £40 million. The project is proceeding to plan and will transform the passenger experience and drive up retail yields. The new security facility opened in December 2013 and the 25,000 sq. ft. walkthrough Duty Free store opens this Summer. On completion, the project will double airside retail space, improve passenger flows and provide 100% footfall for all units.

## Significant Management Changes

There have been no changes to the Executive Management Team since the Initial Issue date on 14 February 2014

There have been no changes to the Board of Directors for Manchester Airport Group Investments Limited.

The Chairman of the Board of Directors for Manchester Airports Holdings Limited, Mike Davies OBE, announced on 31 March 2014 of his intention to stand down. A process is underway to identify a successor and a public announcement will be made in due course.

## 2. Regulatory Update

### Economic Regulation

On 10 January 2014, the Civil Aviation Authority (CAA) published its final decision on economic regulation at STN, Heathrow and Gatwick between April 2014 and 2019. In relation to STN, the CAA concluded that the airport currently operates in two distinct markets:

- the STN passenger market as determined by the CAA (comprising the provision of airport operation services to passenger airlines covering a geographic market that includes STN, Luton and Southend) (the STN Passenger Market); and
- the STN cargo market.

The CAA determined that STN did not have Substantial Market Power in the STN Passenger Market and that no economic regulation would therefore be imposed in this market from 1 April 2014.

This decision was based on a wide range of evidence, including the fact that, after having acquired STN, MAG has agreed long term agreements with some of its passenger airlines, including Ryanair and easyJet (currently the two main customers of the airport) for their use of STN. The terms of these agreements include reductions to prices in return for passenger commitments and growth in passenger numbers and offer charges that are below the current regulated price cap.

The CAA has stated that, if growth targets are met, it considers that these agreements offer the potential for significantly lower charges than base levels. The lower charges are within the range of what the CAA considers to be a competitive level.

The CAA announced on 24 March 2014 that it had concluded that STN does not have Substantial Market Power in its cargo operations and that it should be free from regulation to compete with other airports for cargo services from 1 April 2014.

MAN was deregulated by the CAA in April 2009.

The CAA decision to fully de-regulate STN, including cargo, provides cost and commercial upside and endorses MAG's commercial approach:

- No more uncertainty regarding regulatory settlement;
- Retain operational and commercial efficiencies;
- Reduction in regulatory operating costs; and
- Importance of long term agreements with airlines.

### The Airports Commission

The Airports Commission chaired by Sir Howard Davies published its interim report on 17 December 2013:

- Emphasised utilising the significant spare capacity at both STN and MAN;
- Support for enhancing rail and road connectivity to STN;
- Acknowledged STN as an important option for an additional runway after 2030; and
- Did not shortlist STN for an additional runway in the earlier period to 2030.

## 3. Financing

MAG successfully refinanced the majority of the STN acquisition bank debt through the issuance of two listed bonds. Strong trading performance combined with an appropriate financing policy underpins stable financial leverage (3.6x net debt to EBITDA) and enables MAG to continue to invest in the asset base and fund future growth.

MAG remains committed to sustaining strong investment grade credit ratings with dividend levels guided by the appropriate financial risk profile.

### Capital Markets Transactions

Since the Initial Issue Date on 14 February 2014 Manchester Airport Group Funding PLC has issued a second capital markets instrument:

- MAGAIR £360 million 4.125% 2024 – issued April 2014, London Stock Exchange

### Loan Facilities

Since the Initial Issue Date on 14 February 2014 Manchester Airport Group Finance Limited repaid £360 million of the Secured Term Loan in April 2014 using the proceeds from the aforementioned capital markets transaction.

### Credit Rating Agencies

Both MAGAIR bonds are rated BBB+ (stable) and Baa1 (stable) by Fitch and Moody's respectively.

### Liquidity

There is sufficient liquidity to fund MAG's operations over the short and medium-term with the £300 million Revolving Credit Facility unutilised at 31 March 2014. £18 million of the Revolving Credit Facility has been carved-out in respect of £15 million of overdrafts and £3 million performance bonds.

## 4. Changes to the Security Group Structure

### Acquisitions, Disposals and Joint Ventures

There have been no acquisitions or disposals of Subsidiaries or interests in any Permitted Joint Venture by any member of the Security Group or joint ventures related to any member of the Security Group since the Initial Issue Date on 14 February 2014.

### Obligors

There have been no new Obligors, or release of any Obligors, since the Initial Issue Date on 14 February 2014.

## 5. Current Hedging Position

### Interest Rate Risk

The Company and the Issuer will (taken together) hedge the interest rate risk in relation to the total outstanding Relevant Debt to ensure that at any time a minimum of 60% of the total outstanding Relevant Debt:

- Is fixed rate;
- Is index-linked; or
- Effectively bears a fixed rate (or a maximum fixed rate) or an index-linked rate (or a maximum index-linked rate) pursuant to one or more Hedging Agreements.

As at 31 March 2014 fixed debt represents 90% of the Company's outstanding Relevant Debt.

### Hedging Transactions

Since the Initial Issue Date, the Company has terminated - in two tranches - all of the interest rate swaps extant at 14 February 2014 for a net cash payment of £14 million:

- February 2014: £4 million receipt; and
- April 2014: £18 million payment.

Following the termination of the interest rate swaps in February 2014 and April 2014, MAG no longer has any derivative financial instruments and manages interest rate risk by ensuring there is an appropriate balance of fixed and floating rate sources of funding.

### Currency Risk

As at 31 March 2014 there was no currency risk in respect of the interest payable to expected maturity and the repayment of principal under any foreign currency denominated debt instruments.

## 6. Ratios

### Financial Ratios

We confirm that in respect of this investor report dated 15 July 2014 by reference to the most recent Financial Statements that we are obliged to deliver to you in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 2 (Security Group Covenants) of the Common Terms Agreement:

- the Interest Coverage Ratio in respect of the Relevant Historic Period is estimated to be greater than or equal to 7.6x; and
- the Leverage Ratio in respect of the Relevant Historic Period is or is estimated to be less than or equal to 3.6x (together the Ratios).

We confirm that each of the above Ratios, together with the Distribution Ratios in respect of the Relevant Forward Looking Period, have been calculated in respect of the Relevant Period or as at the Calculation Dates for which it is required to be calculated under the Common Terms Agreement.

## 7. Distributions

### Distribution Ratios

We confirm that the Distribution Ratios in respect of the Relevant Forward Looking Period are satisfied.

### Distributions

We confirm that the amount of Distributions made since the Initial Issue Date on 14 February 2014 is £6 million, of which £3 million was paid in the period following 31 March 2014. These Permitted Distributions were used to settle expenses incurred outwith the Security Group.

### Proposed distributions

The Security Group will make a distribution of £46 million in July 2014. Taking into account the proposed distribution the Distribution Ratios will continue to be satisfied.



## 8. Other

### Confirmation

We confirm that:

- no Obligor Default has occurred and is continuing;
- the Security Group is in compliance with the Hedging Policy; and
- the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Neil Thompson', with a long horizontal flourish extending to the right.

Neil Thompson, Chief Financial Officer

Signing without personal liability, for and on behalf of Manchester Airport Group Investments Limited as Security Group Agent.

## Appendix – Summary Financial Results

### Group

£m	FY14 Actual	FY13 Proforma	Variance (£)	Variance (%)
Aeronautical	342.7	320.9	+21.8	+6.8%
Car Parking	104.4	93.9	+10.5	+11.2%
Retail	119.4	120.3	(0.9)	(0.7%)
Other	104.7	102.4	+2.3	+2.2%
<b>Revenue</b>	<b>671.2</b>	<b>637.5</b>	<b>+33.7</b>	<b>+5.3%</b>
Employee costs	153.5	146.9	+6.6	+4.5%
Non-employee costs	277.2	255.4	+21.8	+8.5%
<b>Operating Costs</b>	<b>430.7</b>	<b>402.3</b>	<b>+28.4</b>	<b>+7.1%</b>
Profit on disposal	1.4	-	+1.4	n/a
<b>EBITDA</b>	<b>241.9</b>	<b>235.2</b>	<b>+6.7</b>	<b>+2.8%</b>

Source: MAG Annual Report & Accounts FY14, MAG Pro Forma Consolidated Financial Statements (Prospectus, February 2014). The prior period comparatives are adjusted for the amendment to IAS19) and the classification of FY13 Revenue has been adjusted to align it with the current management reporting view.

## Legacy MAG

£m	Legacy FY14	Legacy FY13	Variance (£)	Variance (%)
Aeronautical	207.9	185.8	+22.1	+11.9%
Car Parking	67.1	59.8	+7.3	+12.2%
Retail	73.8	71.7	+2.1	+2.9%
Other	77.3	75.8	+1.5	+2.0%
<b>Revenue</b>	<b>426.1</b>	<b>393.1</b>	<b>+33.0</b>	<b>+8.4%</b>
Employee costs	97.6	91.5	+6.1	+6.7%
Non-employee costs	176.9	162.3	+14.6	+9.0%
<b>Operating Costs</b>	<b>274.5</b>	<b>253.8</b>	<b>+20.7</b>	<b>+8.2%</b>
Profit on disposal	1.4	-	+1.4	n/a
<b>EBITDA</b>	<b>153.0</b>	<b>139.3</b>	<b>+13.7</b>	<b>+9.8%</b>

Source: MAG Annual Report & Accounts FY14, MAG Pro Forma Consolidated Financial Statements (Prospectus, February 2014). The prior period comparatives are adjusted for the amendment to IAS19 and the classification of FY13 Revenue has been adjusted to align it with the current management reporting view.

## Stansted

£m	STN FY14	STN FY13	Variance (£)	Variance (%)
Aeronautical	134.8	135.1	(0.3)	(0.2%)
Car Parking	37.3	34.1	+3.2	+9.4%
Retail	45.6	48.6	(3.0)	(6.2%)
Other	27.4	26.6	+0.8	+3.0%
<b>Revenue</b>	<b>245.1</b>	<b>244.4</b>	<b>+0.7</b>	<b>+0.3%</b>
Employee costs	55.9	55.4	+0.5	+0.9%
Non-employee costs	100.3	93.1	+7.2	+7.7%
<b>Operating Costs</b>	<b>156.2</b>	<b>148.5</b>	<b>+7.7</b>	<b>+5.2%</b>
Profit on disposal	-	-	-	-
<b>EBITDA</b>	<b>88.9</b>	<b>95.9</b>	<b>(7.0)</b>	<b>(7.3%)</b>

Source: MAG Annual Report & Accounts FY14, MAG Pro Forma Consolidated Financial Statements (Prospectus, February 2014). The prior period comparatives are adjusted for the amendment to IAS19 and the classification of FY13 Revenue has been adjusted to align it with the current management reporting view.

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