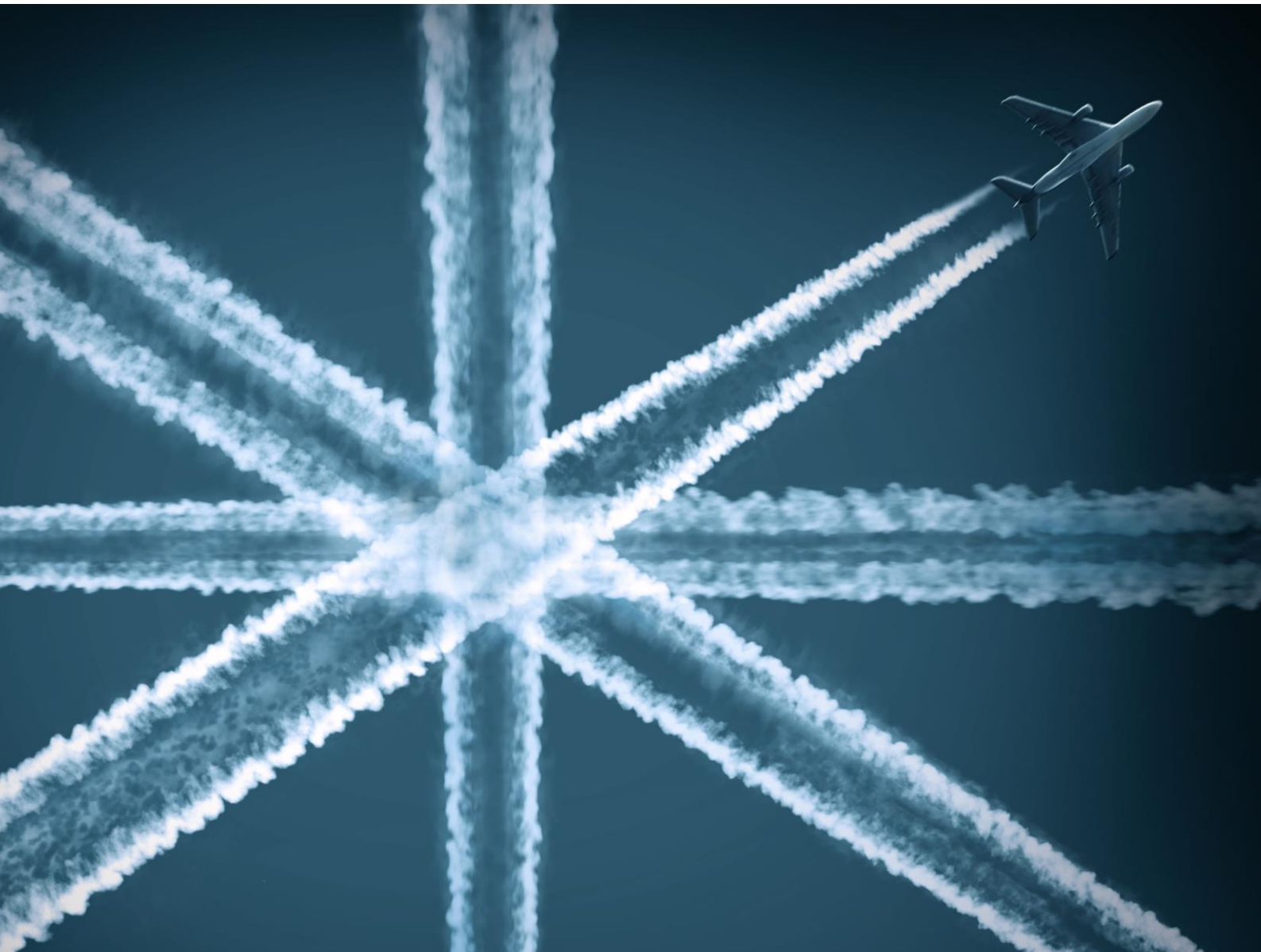




Manchester Airports Group

FY16 Investor Report

July 2016



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 2016 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.

Contents

1. Business Update
2. Regulatory Update
3. Financing
4. Changes to the Security Group Structure
5. Current Hedging Position
6. Ratios
7. Distributions
8. Other

1. Business Update

Further information is available at 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 2016, as well as the Annual Presentation and Compliance Certificate for the year then ended.

MAG has delivered the commercial and operational strategy first described to investors in February 2014 and then during the annual and semi-annual Investor Presentations in 2014, 2015 and 2016. Prospects going forward are strong with the Security 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 2016, a total of 51.9 million passengers (2015: 48.5 million) travelled through a MAG airport, an increase of 3.4 million passengers or 7.0%.

Passengers	FY16	FY15	Variance (m)	Variance (%)
MAN	23.5	22.3	+1.2	+5.4%
STN	23.2	20.9	+2.3	+11.0%
EMA	4.5	4.6	(0.1)	(2.2%)
BOH	0.7	0.7	-	-
Total	51.9	48.5	+3.4	+7.0%

Source: MAG Annual Report & Accounts FY16

Manchester ("MAN"), Stansted ("STN") and Bournemouth ("BOH") all grew passenger numbers while East Midlands ("EMA") passenger numbers fell by 0.1 million.

Passenger numbers at MAN were up 1.2 million or 5.4% for the year ended 31 March 2016. Total passengers for the year were 23.5 million, which is the most in the airport's history - beating the previous record set last year.

The strong performance is due mainly to extra capacity from Ryanair, EasyJet, Thomson, Thomas Cook, Jet2 and Vueling along with continued growth of Middle East carriers, the continued development of the Flybe domestic hub and the extension of the short-haul and long-haul route network. New long-haul routes have been announced from Manchester to major cities including Boston, Los Angeles and San Francisco, and popular holiday destination such as Tobago, Mauritius, Goa and Phuket.

A particular milestone for the airport came in October 2015 when MAN celebrated the announcement of a four times per week direct service to Beijing with Hainan Airlines. This new direct service together with the China cluster of our airport city development was announced at the visit to Manchester Airport by The President of China and the British Prime Minister who we were delighted to welcome to the airport as part of the President's State visit to the UK. Flights commenced in June 2016. MAN is the only UK airport outside London with a direct scheduled link to mainland China.

Passenger numbers at STN were up 2.3 million or 11.0% for the year ended 31 March 2016. Passenger growth at STN continues on a strong positive trajectory following MAG's acquisition of the airport after a number of years of decline. The airport is now the fastest growing airport in the London system.

The long-term commercial agreements with airline partners underpin a strategy that incentivises growth. Since the acquisition of the airport in February 2013 MAG has delivered over 30 new routes and STN has added almost six million passengers, an increase of 33% in only three years, underlining the success of our commercial strategy.

STN has excellent European connectivity and significant progress has also been made in broadening the network and developing a long-haul offering. Thomas Cook commenced the first direct long-haul routes from STN with services to Las Vegas, Cancun and Orlando. New short-haul routes include Lyon, Luxembourg, Krakow, Alicante, Rome and Tenerife.

Passenger numbers at EMA fell by 0.1 million or 2.2% for the year ended 31 March 2016 as a result of the loss of Monarch but partly mitigated by increased load factors to other destinations. EMA carried over 300,000 tonnes of cargo in the year, up 4.6% on prior year and a record for the airport. East Midlands is the largest pure freight airport in the UK.

BOH passenger numbers increased to 0.73 million for the year ended 31 March 2016, an increase of 11.4% boosted by Flybe services trialled for the year, but not being replicated this summer.

Financial Results for FY16

£m	Group FY16	Group FY15	Variance (£'m)	Variance (%)
Aeronautical	387.4	378.8	+8.6	+2.3%
Retail	143.8	134.3	+9.5	+7.1%
Car Parking	137.6	122.4	+15.2	+12.4%
Property	47.5	46.4	+1.1	+2.4%
Other	62.5	56.5	+6.0	+10.6%
Revenue	778.8	738.4	+40.4	+5.5%
Employee costs	(174.2)	(165.9)	(8.3)	(5.0%)
Non-employee costs	(297.5)	(288.9)	(8.6)	(3.0%)
Operating Costs	(471.7)	(454.8)	(16.9)	(3.7%)
Property development	10.6	-	+10.6	n/a
EBITDA	317.7	283.6	+34.1	+12.0%

Source: MAG Annual Report & Accounts FY16

The growth in passenger numbers combined with yield improvements in retail and car parking, investment in customer service and security to support volume growth, 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 by £34 million to £318 million (+12.0%) with a particularly encouraging set of results from MAN and STN.

Aeronautical Revenue

Group aeronautical revenue increased by £9 million to £387 million (+2.3%). Robust growth in passenger numbers at MAN (+5.4%) and STN (+11.0%) drives most of the increase. The planned modest reduction in aeronautical yields is due to the growth of low cost carrier traffic and our commercial strategy of offering airline incentives to make best use of our capacity across the day, incentivising off-peak traffic, and bringing new carriers and new routes to MAG's network.

Retail Revenue

Retail revenue is up by £10 million to £144 million (+7.1%) driven by passenger growth and partially offset by the adverse effect of a change in passenger mix as growth is delivered through short-haul passengers.

Terminal transformations at STN and EMA are now complete and delivering increased yields; a testament to our investment and our retail strategy. The emphasis has been on creating new, accessible commercial spaces and encouraging dwell time to increase retail yields which we expect to see the full year benefit of next year.

Car Parking Revenue

Car parking revenue increased by £15 million to £138 million (+12.4%) driven by both growth in passenger numbers and an increase in yields. The yield improvement reflects the return from investment in additional car parking capacity, roll-out of “Meet and Greet” at STN and effectively managing customer trends of moving to pre-book channels.

Operating Costs

Operating costs (excluding depreciation) increased by £17 million to £472 million (+3.7%) against the 5.5% increase in revenues. The increase is largely driven by variable costs of handling additional passengers, careful investment in security and customer service in support of the additional volumes and marketing to support new routes. Other costs continue to be tightly controlled, mitigating these increases through a wide range of ongoing efficiency improvements across the Group to maintain an efficient cost base for the business. Operating costs per passenger at a Group level have reduced by £0.29 per passenger (or 3%).

Property Development

MAG completed a number of property transactions during the year yielding a profit of £10.6 million. These include the sale of:

- land to Mountpark for industrial/logistics development on Airport City;
- development land to Curtiss Wright for the construction of a high-tech unit at Bournemouth; and
- land at Stansted for the construction of a hotel on the airport site.

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 2016 was £125 million including £64 million on maintenance capex, £51 million on growth capex and £10 million on property investment.

The STN terminal transformation is now complete and was delivered on schedule and on budget. The final phase has delivered 18 new speciality retail outlets including Hugo Boss, Ted Baker and Mulberry to add to the reconfiguration of the retail and security space and revitalised food and beverage offering. We have invested £40 million in the development of the STN Terminal with our retail partners contributing another £40 million. The development is helping STN maintain its award-winning position as the Best London Airport.

Refurbishment of STN's Satellite 1 was also completed earlier this year providing a remodelled and modernised offering to cater to the requirements of the full service and long-haul carriers providing a more tailored and differentiated airport product for its airlines. MAG continues to consider infrastructure options for STN to make best use of spare runway capacity over short, medium and long-term.

Work on the initial phases of the £1bn, 10 year Manchester Transformation Programme announced last year has been ongoing and the project is now in its detailed design phase. In March we received planning consent marking a major milestone for this transformation project. The £1 billion modular programme updates and re-profiles existing long-term capital investment plans. Financing and debt investor considerations are central to the refresh of the transformation master plan with the focus on component separability, resilience in the event of a downturn and conservative financing. This reflects the Group's ongoing commitment to maintaining its strong investment-grade credit rating.

Management Development

As part of our Executive management development programme we look to create opportunities for our people to enhance their skills and provide succession planning for key roles within the group. As part of this programme Andrew Harrison was appointed Chief Strategy Officer in April 2016, and is responsible for the Group's long-term strategy. He was previously Managing Director of STN since March 2013, and held the position of Chief Operating Officer of the Group since April 2012. Prior to this he was Managing Director of Manchester Airport.

Andrew Cowan was appointed Divisional CEO of STN in April 2016. Prior to his appointment, Andrew was Chief Strategy Officer for MAG with responsibility for the whole Group's long-term strategy. Andrew joined MAG in 2013 as Chief Operating Officer of MAG and Managing Director of Manchester Airport.

Collette Roche was appointed Director of Security and Customer Service and Deputy Divisional CEO for Manchester Airport in April 2015. Collette was previously HR Director for the Group.

There have been no other changes to the executive management team since the Initial Issue date on 14 February 2014 with the exception of Ken O'Toole's appointment as Divisional CEO for Manchester Airport. Mr O'Toole was previously Chief Commercial Officer.

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, resigned in September 2014. Sir Adrian Montague was appointed to the Board of Manchester Airports Holdings Limited in September 2014 as Mr Davies' successor.

There were three changes to Non-Executive Directors for Manchester Airports Holdings Limited. James Wallace and Angela Spindler completed their Non-Executive directorships in July 2015 and March 2016 respectively. Robert Napier was appointed in September 2015.

International Activities

In May 2015, MAG announced the appointment of Rosie Andolino as Chief Executive Officer and President of M.A.G US to oversee the development of MAG's airport services business in North America. MAG US will look to develop potential opportunities in the US market, including working with airports to develop and operate terminal and retail solutions, passenger lounges and car parking facilities. MAG US has been established outside of the Security Group and is mentioned in this report for information only.

EU Referendum

On Thursday 23 June 2016 the EU referendum took place and the people of the United Kingdom voted to leave the European Union.

The single aviation market that was established by the EU has benefitted UK consumers and businesses enormously over the last 25 years by opening up the travel industry to provide

greater competition and choice. MAG will be working closely with the rest of our industry to seek to ensure that UK aviation remains part of that single market so that consumers, business and airlines can continue to benefit from open access to Europe.

In line with its normal business practices MAG continues to monitor potential impacts of changes to the economy and political landscape on the business, and will work with the UK and the industry to maximise its position. The Group is in a strong position in terms of financing, financial performance and ability to flex investment for prevailing market conditions. MAG's long-term strategy looks through economic cycles and remains on a positive outlook.

2. Regulatory Update

Economic Regulation

The four airports in the MAG portfolio are not subject to economic regulation by the CAA.

MAN and STN were deregulated by the CAA in April 2009 and April 2014 respectively.

3. Financing

In June 2016 MAG refinanced its £300 million Revolving Credit and £60 million Liquidity facilities, which were due to mature in February 2018, with a new five year £500 million RCF and a £60 million liquidity facility, maturing June 2021, achieving significant interest cost deduction in the process. MAG has now successfully refinanced all of the STN acquisition bank debt with this latest refinancing of its short-term facilities in combination with the issuance of two listed bonds in 2014. Strong trading performance combined with an appropriate financing policy underpins stable financial leverage 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. MAG's listed bonds comprise:

- MAGAIR £450 million 4.750% 2034 – issued February 2014, London Stock Exchange
- 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 has repaid all of the Secured Term Loan using the proceeds from the aforementioned capital markets transactions with the final £90 million being repaid from the new Revolving Credit Facility in June 2016.

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. As at 31 March 2016 there was £0 (zero) million of the £300 million Revolving Credit Facility utilised. Following the refinancing in June 2016 MAG drew down £95 million of the £500 million Revolving Credit Facility to repay the £90 million Term Loan, accrued interest and transaction costs. £15 million of the Revolving Credit Facility has been carved-out in respect of £10 million of overdrafts and £5 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 2016 fixed rate debt represented 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:

- February 2014: £4.1 million receipt; and
- April 2014: £18.3 million payment.

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

Currency Risk

As at 31 March 2016 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 13 July 2016 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 7.2x; and
- the Leverage Ratio in respect of the Relevant Historic Period is or is estimated to be less than or equal to 2.8x (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 Investor Report dated July 2015 is £130.8 million.

- July 2015: £62.0 million Final Dividend
- September 2015: £15.1 million Interest on Shareholders' Loan
- December 2015: £38.6 million Interim Dividend
- March 2016: £15.1 million Interest on Shareholders' Loan

Proposed distributions

The Security Group will make a distribution of £77.2 million in July 2016. 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 stroke 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.

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