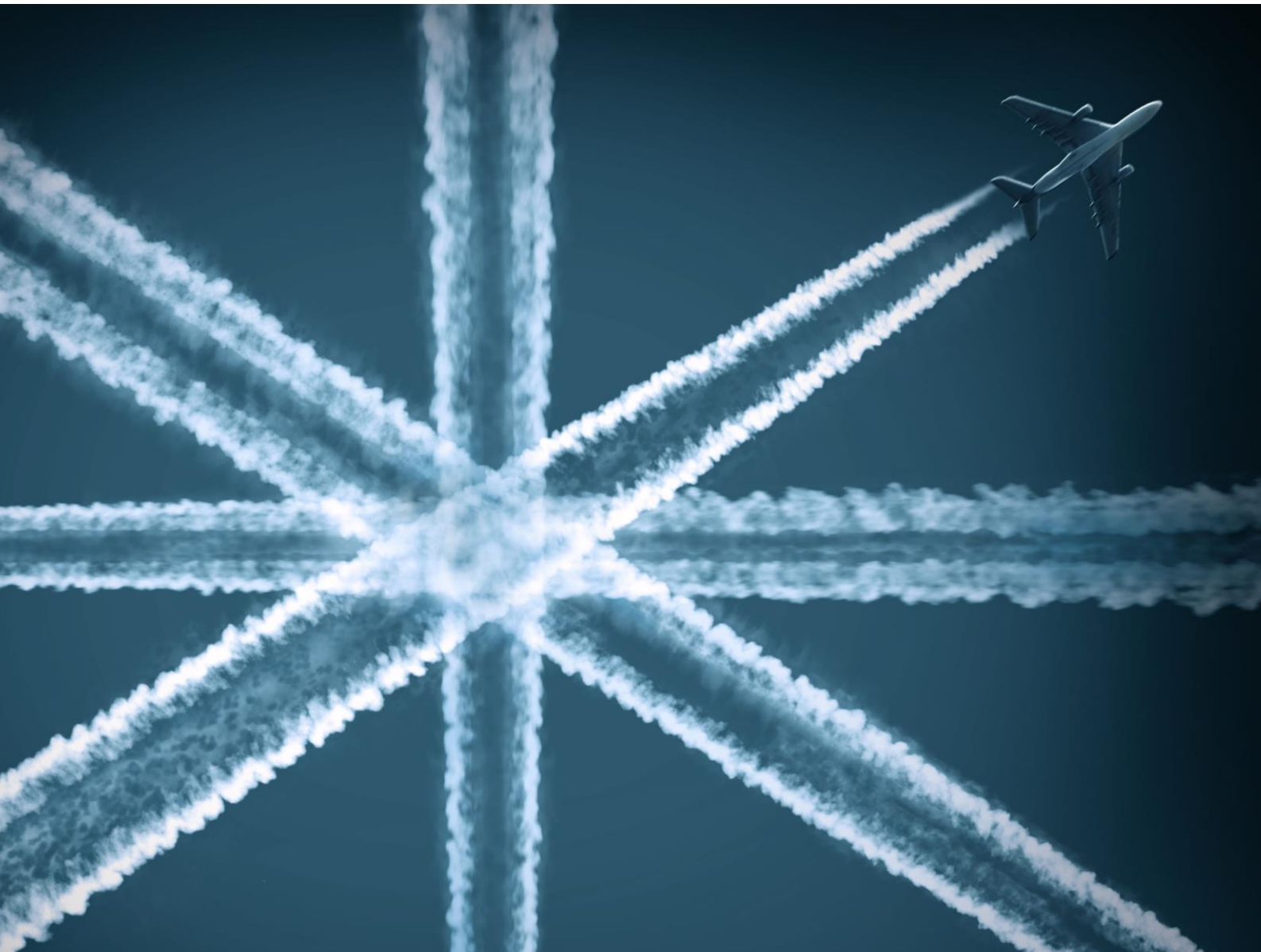




Manchester Airports Group

FY17 Investor Report

July 2017



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 2017 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 and in the Manchester Airport Group Investments Limited and Manchester Airports Holdings Limited reports and financial statements for the year ended 31 March 2017, 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. Our prospects 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 2017, a total of 55.9 million passengers (2016: 51.9 million) travelled through a MAG airport, an increase of 4.0 million passengers or 7.7%.

Passengers	FY17	FY16	Variance (m)	Variance (%)
MAN	26.2	23.5	+2.7	+11.5%
STN	24.3	23.2	+1.1	+4.7%
EMA	4.7	4.5	+0.2	+4.4%
BOH	0.7	0.7	-	-
Total	55.9	51.9	+4.0	+7.7%

Source: MAG Annual Report & Accounts FY17

Manchester ("MAN"), Stansted ("STN") and East Midlands ("EMA") all grew passenger numbers while Bournemouth ("BOH") passenger numbers were unchanged at 0.7 million.

Passenger numbers at MAN were up 2.7 million or 11.5% for the year ended 31 March 2017. Total passengers for the year were 26.2 million, which is the most in the airport's history - beating the previous record set last year.

MAN has continued to increase its significant global connectivity and now has 51 airlines flying to 208 destinations. The direct flight to Beijing that was launched in June 2016 is a good

example of the benefits that come with the airport's increased reach, with frequency increased from an initial four flights a week to six and Boeing 787 Dreamliners coming onto the route from this summer.

The year ended with another exciting long haul development as Virgin Atlantic launched the UK's first ever direct flights to San Francisco from outside London. The route will be an additional catalyst for the North's growing tech sector, who will gain a direct link to Silicon Valley, with all the investment and collaboration opportunities which that brings.

In addition, the overall growth over the year has been driven out of all areas of our aviation offering: EU and non-EU; long haul and short haul; low cost and full service.

Passenger numbers at STN were up 1.1 million or 4.7% for the year ended 31 March 2017. Passenger growth at STN continues on a strong positive trajectory following MAG's acquisition of the airport in 2013 with the airport now having 7 million more passengers.

This year's focus at STN has been to prepare foundations that will ensure the airport is well equipped to play an ever-increasing and flexible role in meeting demand for future air travel in London and the South East. A major step forward was achieved when we secured the planning permissions for STN to build a new dedicated arrivals terminal to make full use of the existing runway.

Airlines are certainly seeing STN's potential. This year, Jet2.com commenced operations from STN as its first ever base in the South East of England, British Airways consolidated its scheduled flights and Ryanair extended its deal with the airport.

It has been a successful year at EMA with 4.4% growth in passenger numbers from 4.5m to 4.7m. This achievement was made all the more impressive by the fact that we completely relaid the airport's single runway through a series of all-weekend closures in November and December 2016. The airport also handled more cargo than in the previous year (326,533 tonnes), cementing its position as the UK's biggest airport for pure freight aircraft and a key driver of the 'Midlands Engine'.

BOH passenger numbers have remained at 0.7 million for the year ended 31 March 2017, since the acquisition in 2001 the Group has implemented a program of investments and operational improvements.

Financial Results for FY17

£m	Group FY17	Group FY16	Variance (£'m)	Variance (%)
Aeronautical	407.0	387.4	+19.6	+5.1%
Retail	164.4	143.8	+20.6	+14.3%
Car Parking	152.1	137.6	+14.5	+10.5%
Property	49.1	47.5	+1.6	+3.4%
Other	67.0	62.5	+4.5	+7.2%
Revenue	839.6	778.8	+60.8	+7.8%
Employee costs	(187.8)	(174.2)	(13.6)	(7.8%)
Non-employee costs	(315.6)	(297.5)	(18.1)	(6.1%)
Operating Costs	(503.4)	(471.7)	(31.7)	(6.7%)
Property development	7.0	10.6	(3.6)	(34.0%)
EBITDA	343.2	317.7	+25.5	+8.0%

Source: MAG Annual Report & Accounts FY17

The growth in passenger numbers combined with continued growth 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 £25 million to £343 million (+8.0%) with a particularly encouraging set of results from MAN and STN.

Aeronautical Revenue

Group aeronautical revenue increased by £20 million to £407 million (+5.1%). Robust growth in passenger numbers at MAN (+11.5%) and STN (+4.7%) drove most of the increase. The planned modest reduction in aeronautical yields is due to the growth of low cost carrier traffic who are most effective at utilising 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 £21 million to £164 million (+14.3%), ahead of the growth in passenger numbers. The performance has benefitted from the full year impact of the significant investment in the terminal transformation at STN. These investments are delivering an increase in retail yield of 6% despite challenging market conditions particularly in duty free; 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.

Car Parking Revenue

Car parking revenue increased by £15 million to £152 million (+10.5%) driven by both growth in passenger numbers and a focus on innovation, providing more customer choice and maximising utilisation. There has been continued focus in Meet & Greet facilities and yield management supported by investment in CRM and online booking capabilities.

Operating Costs

Operating costs (excluding depreciation) increased by £31 million to £503 million (+6.7%) against the 7.8% increase in revenues. The increase is largely driven by investment required to support improvements to customer service, increased regulatory costs, enhancements to back-office systems and marketing to support new route development. 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 £0.08 per passenger (or 1%).

Property Development

MAG completed a number of property transactions during the year yielding a profit of £7.0 million. These include the sale of:

- land to Roxhill for a rail freight interchange adjacent to East Midlands Airport; and
- sale of DHL's logistics facility at Airport City to the Daily Mail Pension Fund.

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 2017 was £179 million including £93 million on maintenance capex, £81 million on growth capex and £5 million on property investment.

Work on the initial phases of the £1 billion, 10 year Manchester Transformation Programme is progressing well through the design phases.

A new c.£130 million, 34,000 m² arrivals facility has been given planning approval as part of MAG's investment programme at STN to enhance passenger experience and provide capacity for growth that the airport over the next decade. Further major schemes including a c.£220m transformation of the existing terminal into a dedicated departure building, and an c.£100m upgrade to airside infrastructure to support increasing peak hour movements are also planned.

There is significant ongoing investment in IT infrastructure, back-office systems and software to enable the Group to support additional growth and manage its assets more efficiently.

The runway resurfacing works at East Midlands Airport supporting cargo and passenger operations was completed over the Autumn. It required 50,000 tonnes of asphalt and 1,200 runway lights and was completed over seven consecutive weekends.

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.

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.

There were a number of changes to Non-Executive Directors for Manchester Airports Holdings Limited. Kieran Quinn and Baroness Elizabeth Symons completed their Non-Executive directorships in May 2016 and December 2016 respectively, with David Molyneux appointed in May 2016 and Catherine Schefer and Jonathan Wragg both appointed in September 2016.

David is the Deputy Leader of Wigan Metropolitan Borough Council; Cath has 27 years' experience in the design, construction and management of large infrastructure projects, and is currently a senior executive with MWH Global; and Jon has 30 years' experience in the retail sector, including with Littlewoods and Asda, and is currently responsible for multiple functions of the FTSE 250-listed SuperGroup plc.

International Activities

MAG's initial entry in to the North American Market has been deliberately small scale, through winning and developing lounge concessions. The current year saw the opening of two new 'Escape Lounge' concessions at Oakland International Airport and Bradley International Airport, for which we won Best New Customer Concept award at the ACI-NA Business of Airports Conference. MAG US has been established outside of the Security Group and is mentioned in this report for information only.

EU Referendum

The 'Brexit' referendum decision presents a macroeconomic risk to the business, and the aviation industry faces uncertainty over the short and longer term impacts of the UK's exit from the EU.

We monitor the economic environment closely and have ensured that our business plans are resilient to economic shocks through prudent scenario planning and sensitivity analysis. This, coupled with resilient foundations built during a successful period of growth, provides a positive long-term outlook.

MAG will continue to work closely with the aviation industry to ensure that the UK continues to enjoy liberal access to the EU aviation market.

2. Regulatory Update

Economic Regulation

The four airports in the MAG portfolio are not licenced by the CAA for the purposes of economic regulation.

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 2021¹, achieving significant interest cost reduction 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.

¹ Subsequently extended to June 2022 following exercise of the Extension Option in June 2017

Liquidity

There is sufficient liquidity to fund MAG's operations over the short and medium-term. As at 31 March 2017 there was £137 million of the £500 million Revolving Credit Facility utilised. £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 2017 fixed rate debt represented 86% 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 2017 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 12 July 2017 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 2.7x (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 2016 is £154.4 million.

- July 2016: £77.2 million Final Dividend
- September 2016: £15.1 million Interest on Shareholders' Loan
- December 2016: £47.0 million Interim Dividend
- March 2017: £15.1 million Interest on Shareholders' Loan

Proposed distributions

The Security Group will make a distribution of £93.9 million in July 2017. 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.

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