Manchester Airports Group

FY18 Investor Report

July 2018

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 2018 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 www.magairports.com/investor-relations/ and in the Manchester Airport Group Investments Limited and Manchester Airports Holdings Limited reports and financial statements for the year ended 31 March 2018, 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, 2016 and 2017. 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 2018, a total of 58.9 million passengers (2017: 55.2 million) travelled through a MAG airport, an increase of 3.7 million passengers or 6.7%.

Passengers	FY18	FY17	Variance (m)	Variance (%)
MAN	27.9	26.2	+1.7	+6.5%
STN	26.1	24.3	+1.8	+7.4%
EMA	4.9	4.7	+0.2	+4.3%
Total	**58.9**	**55.2**	**+3.7**	**+6.7%**

Source: MAG Annual Report & Accounts FY18
Note: BOH was sold in December 2017. Passenger numbers for FY18 and FY17 are excluded from the above table.

On 5 December 2017 MAG entered into an agreement to sell its entire shareholdings in Bournemouth International Airport Limited ("BOH") and its subsidiaries to Regional and City Airports Holdings Limited, a subsidiary of Rigby Group plc. BOH had annual passenger volumes of 0.7 million and was considered to be a non-core investment.

Manchester ("MAN"), Stansted ("STN") and East Midlands ("EMA") all grew passenger numbers.

Passenger numbers at MAN were up 1.7 million or 6.5% for the year ended 31 March 2018. Total passengers for the year were 27.9 million, which is the most in the airport's history -

beating the previous record set last year, an impressive result given that in the period the airport saw its seventh biggest airline, Monarch, cease trading.

MAN has continued to increase its significant global connectivity and now has more than 70 airlines flying to more than 220 destinations. MAN's top five most popular destinations, which include Dubai, Dublin, and Palma Mallorca, demonstrate the variety of passengers that use the airport as their global gateway to the world. This year, the Beijing and Hong Kong routes both saw increased frequencies, while Manchester is now the 6th most significant airport in Europe for passengers flying to and from the United States.

Most of MAN's long haul routes are available exclusively from Manchester outside of London, and its role in connecting the Northern Powerhouse to key global markets cannot be overstated.

In July 2017 work commencement on the Manchester Airport Transformation Programme (MAN-TP). MAN-TP will give the airport the terminal and airfield facilities needed to make best use of its two full-length runways. The first major phase of the transformation programme was delivered in February, connecting the steel framework of one of the new airport piers to the terminal extension for the first time.

Passenger numbers at STN were up 1.8 million or 7.4% for the year ended 31 March 2018. Passenger growth at STN continues on a strong positive trajectory following MAG's acquisition of the airport in 2013 with the airport now having 8.6 million more passengers.

This years 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 new facilities to make full use of the existing runway.

STN has also submitted a planning application to Uttlesford District Council, to raise restrictions on the number of passengers that the airport is permitted to serve from 35 million passengers per year to 43 million. Raising STN's 'planning cap' will allow it to work with airlines to plan for the future with certainty.

Airlines are certainly seeing STN's potential. During 2018, Emirates' announcement that they will fly daily to Dubai from STN was transformational for the whole region, in that the East of England will now have direct access to a global aviation hub. Primera Air announced routes to New York, Washington DC, Boston and Toronto on brand new innovative Airbus A321neo aircraft, while WOW air announced new links to a raft of US cities via its hub in Reykjavik.

Together with other new route launches for Summer 2018, including Air Corsica and Wideroe, and further expansion of Ryanair and Jet2.com's offerings, the airport is thriving like never before.

It has also been a successful year at EMA with 4.3% growth in passenger numbers from 4.7m to 4.9m.

EMA continues to play a dual role in the thriving "Midlands Engine". It is the UK's busiest airport for 'pure cargo' aircraft and second only to Heathrow in terms of the total amount of cargo it handles every year. This year, total tonnage rose 9.8%.

As the airport grows, it continues to appeal to significant companies attracted to its facilities and location. This year EMA welcomed West Atlantic, a major air cargo company, and the development of the Segro East Midlands Gateway, a large new rail freight hub just north of the airport, will encourage further synergies and growth.

Financial Results for FY18

£m	Group FY18	Group FY17	Variance (£'m)	Variance (%)
Aeronautical	332.7	309.0	+23.7	+7.7%
Retail	181.6	163.3	+18.3	+11.2%
Car Parking	187.2	163.1	+24.1	+14.8%
Property	44.4	42.4	+2.0	+4.7%
Other	72.2	64.9	+7.3	+11.2%
Revenue	**818.1**	**742.7**	**+75.4**	**+10.2%**
Employee costs	(218.4)	(182.1)	(36.3)	(19.9%)
Non-employee costs	(242.2)	(228.4)	(13.8)	(6.0%)
Operating Costs	**(460.6)**	**(410.5)**	**(50.1)**	**(12.2%)**
Property development	1.3	7.0	(5.7)	(81.4%)
EBITDA	358.8	339.2	+19.6	+5.8%

Source: MAG Annual Report & Accounts FY18

The growth in passenger numbers combined with continued growth in retail and car parking, investment in customer service and security to support volume growth, insourcing of STN car parking operations, 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 £19.6 million to £358.8 million (+5.8%) with a particularly encouraging set of results from MAN and STN.

MAG has early adopted IFRS 15, the new revenue recognition standard, and this report on our performance in 2018 against the comparative period in 2017 is under the new standard. The adoption of the standard has the impact of restating revenue and costs by equal amounts, with nil impact on the result from operations in either year.

Aeronautical Revenue

Group aeronautical revenue increased by £24 million to £332.7 million (+7.7%). Robust growth in passenger numbers at MAN (+6.5%) and STN (+7.4%) drove most of the increase. Aeronautical yields increased by 1% despite 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 £18 million to £181.6 million (+11.2%), 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 4% 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 £24 million to £187.2 million (+14.8%). The increase has been driven by the increased passenger volumes in addition to continued investment in new capacity to support passenger growth and broadening the product mix, with particular focus on

Meet & Greet facilities. Continued focus on commercial yield management, and effective management of the customer trend of moving to pre-book channels, have also driven growth.

Operating Costs

Operating costs (excluding depreciation) increased by £50 million to £460.6 million (+12.2%) against the 10.2% 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. Cost growth was in line with the business plan and the Group continues to exercise tight underlying cost control, while investing on a targeted basis to support increases in passenger volumes and customer service. Operating costs per passenger at a Group level increased by £0.38 per passenger (or 5.2%).

Property Development

Results from operations in MAG's Property division has reduced as a consequence of the Group's strategy to realise the value of its residential property portfolio at London Stansted and the sale of its Bournemouth assets through managed portfolio disposals. Property development deals producing profit on disposal of £1.3m were completed, in addition to a number of investment property deals, where an additional £4.5m was recorded below EBITDA within gains and losses on sales and valuation of investment properties.

During the period Airport City completed the sale of 45 acres at its Global Logistics site in Airport City South, which generated a profit for MAG's share of its investment of £5.0m. The Airport City joint venture has been established outside of the Security Group and is mentioned in this report for information only.

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 2018 was £342 million including £95 million on maintenance capex, £244 million on growth capex and £3 million on property investment.

The Manchester Transformation Programme represented the largest individual project, with construction work commencing during the Summer 2017. It has been designed to be both phased and modular to optimise cash requirements and manage financial risk, whilst also ensuring minimal disruption to airport operations, passengers and airlines.

At STN initial phases of investment in new facilities has begun. This includes airfield and terminal enhancement work. The investment in both airports will improve the experience for passengers and airlines using the airport, and provide the foundations to unlock significant growth potential.

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.

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 Cowan and Ken O'Toole swapped roles in September 2017. Andrew became Divisional CEO of Manchester Airport and Ken took up his position as Divisional CEO of London Stansted Airport.

Andrew Cowan has previously held the positions of Divisional CEO of London Stansted and 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.

Ken O'Toole previously held the positions of Divisional CEO for Manchester Airport and Chief Commercial Officer.

In April 2018 Brad Miller was appointed Chief of Staff following the departure of Collette Roche. Brad most recently held the position of Chief Operating Officer at London Stansted and prior to that was Programme Director for the Manchester Airport Transformation Programme.

In April 2018 Andy Cliffe left the position of Managing Director for East Midlands Airport to be replaced by Karen Smart. Karen was previously Director of Asset Management at STN and prior to that Customer Service Director at the airport.

There have been no other changes to the executive management team since the Initial Issue date on 14 February 2014 other than Andrew Harrison's appointment as Chief Strategy Officer in April 2016, 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.

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

There were no changes to Non-Executive Directors for Manchester Airports Holdings Limited with the exception of David Molyneux who resigned in May 2018.

International Activities

MAG's initial entry in to the North American Market has been deliberately small scale, through winning and developing lounge concessions and the business currently operates four lounges. The current year saw the opening of a new 'Escape Lounge' concession at Reno-Tahoe Airport. The business has recently secured a combined lounge and car parking concession at Ontario International Airport in Los Angeles. The contract at Ontario International Airport offers MAG its first car park concession which will begin trading during 2018. MAG's Escape Lounge at Minneapolis-Saint Paul International Airport was nominated for the Best Airport Service/Amenity by USA Today.

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 three 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

Revolving Credit and Liquidity Facilities

MAG has a £500 million revolving credit facility and a £60 million liquidity facility, maturing June 2023[1]. These facilities, together with the long-term capital markets issuances, a strong trading performance and an appropriate financing policy underpin 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 three 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
- MAGAIR £300 million 2.875% 2029 – issued November 2017, 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

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

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[1] The original facilities has a maturity of June 2021. Following exercise of the First Extension Option in June 2017 and the Second Extension Option in May 2018 these facilities now have a maturity of June 2023.

Liquidity

There is sufficient liquidity to fund MAG's operations over the short and medium-term. As at 31 March 2018 there was £0 million (zero) 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.

The £60 million Liquidity Facility provides further liquidity to pay more than 12 months of debt service obligations as they fall due.

4. Changes to the Security Group Structure

Acquisitions, Disposals and Joint Ventures

On 5 December 2017 MAG entered into an agreement to sell its entire shareholdings in Bournemouth International Airport Limited ("BIAL") and its subsidiaries (Bournemouth Airport Property Investments (Offices) Ltd, Bournemouth Airport Property Investments (Industrial) Ltd, Bournemouth Airport Core Property Investments Ltd) to Regional and City Airports Holdings Limited, a subsidiary of Rigby Group plc.

There have been no other 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 (other than BIAL) , since the Initial Issue Date on 14 February 2014.

Reorganisation

On 27 March 2018 MAG completed the reorgansiation of the Security Group as part of an internal consolidation of the Group's property assets. 100% of the shares of Manchester Airport Group Finance Ltd were transferred to Manchester Airport Group Investments Ltd from The Manchester Airport Group Plc. There were no changes to members of the Security Group as a result of this reorganisation.

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 2018 fixed rate debt represented 100% 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 2018 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 5 July 2018 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 7.7x; and

- the Leverage Ratio in respect of the Relevant Historic Period is or is estimated to be less than or equal to 3.1x (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 2017 is £798.5 million.

- July 2017: £93.9 million Final Dividend
- September 2017: £15.1 million Interest on Shareholders' Loan
- December 2017: £55.3 million Interim Dividend
- March 2018: £15.1 million Interest on Shareholders' Loan
- March 2018: £619.1 million as a dividend to its parent, Manchester Airport Finance Holdings Limited. This offset amounts owed by Manchester Airport Finance Holdings Limited and its parent Manchester Airport Holdings Limited to Manchester Airport Group Investments Limited relating to previous distributions paid on their respective behalves.

Proposed distributions

The Security Group will make a distribution of £110.7 million in July 2018. 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,

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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