Manchester Airports Group

FY20 Investor Report

July 2020

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 2020 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 2020, 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 for every financial year ending thereafter.

This report is published at an unprecented time for the aviation industry. Global restrictions on travel in response to the spread of COVID-19 have had a severe impact upon the Group and the wider aviation and travel industry over the last few months.

MAGIL's performance for the 12 months to 31 March 2020 was positive and delivered growth in key areas across the Group. The results reflect MAG's strong fundamentals delivering sustained growth and good customer service.

Passenger numbers

Group

PAX	FY20	FY19	Variance (m)	Variance (%)
MAN	28.2	28.6	(0.4)	(1.4%)
STN	26.9	28.4	(1.5)	(5.3%)
EMA	4.5	4.9	(0.4)	(8.2%)
TOTAL	59.6	61.8	(2.2)	(3.6%)

Source: MAG Annual Report & Accounts FY20

While overall passenger numbers for the 12-month period were slightly lower than last year at 59.6 million (-3.6%), it is important to consider the Group's performance in different parts of the year to appreciate how it was performing before trading was impacted by the pandemic.

From April to December 2019, passenger numbers were 0.8% higher across the Group than the previous year, with 50.0 million passengers in this period compared with 49.6 million the year before. This represents a strong performance despite relatively slow economic growth and the collapse of Thomas Cook Airlines in September 2019.

From January to March 2020, passenger numbers were 21.3% lower than the previous year, with 9.6 million passengers in this period compared with 12.2 million the year before. This performance reflects the growing impact of COVID-19 on air travel during the final quarter, which ended with the grounding of the majority of airline fleets from around the middle of March 2020. Passenger volumes in March 2020 were 56.5% lower than the previous year.

Manchester Airport ("MAN")

Despite the collapses of Thomas Cook and Flybe during the year, passenger numbers at MAN were 2.9% ahead of prior year at the end of February. MAN was able to successfully mitigate the airline losses principally through an increase in volumes with Jet2 and easyJet. The reduction in activity in March due to COVID-19 resulted in passenger numbers for the year being 0.4m down on FY19 (1.4%).

Work on the Manchester Airport Transformation Programme ("MAN-TP") was ongoing throughout the year. The first phase of MAN-TP completed on schedule and the new Pier 1 at

Terminal 2 was opened in April 2019 alongside a new MSCP. The second phase of MAN-TP was scheduled to open during Summer 2020; this will now happen later in the year. Further phases of MAN-TP have been paused until the economic environment normalises.

MAN has continued to increase its significant global connectivity over FY20 with FlyEgypt commencing a 4 times per week service to Hurghada. A key new service to Shanghai with Juneyao Air, MAN's third direct route to China, and the return of Delta's MAN to Boston service had both been due to commence during Summer 2020, with commencement now delayed.

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, and the economic recovery of the region over the coming years cannot be overstated.

Stansted Airport ("STN")

STN passenger numbers decreased 1.5m (5.3%) during the year. At the end of February passenger numbers were only 1% down on the prior year with an increase in Jet2 volumes partly offsetting the loss of Thomas Cook and a reduction in capacity with Ryanair.

STN's route network has continued to expand. Jet2 added a number of destinations during the year, Emirates doubled the frequency of its daily service to Dubai and Air India added flights to Amritsar from October 2019.

Tthe transformation programme at STN has delivered new check in desks and another new multi-storey car park providing an enhanced experience for passengers. MAG has slowed the pace of the Stansted Airport Transformation Programme ("STN-TP") to reflect the revised expected demand levels with expenditure focused on components of the programme already in progress such as enabling works for the arrivals terminal.

East Midlands Airport ("EMA")

FY20 passenger numbers of 4.5m at EMA reflected a reduction of 0.4m, driven by the loss of Thomas Cook and Flybe, plus the early impacts of COVID-19.

EMA 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. The importance of this dual role has been outlined throughout the pandemic; in recent months EMA was one of the top 10 airports in Europe by air traffic movements, underlining its vital role in the UK's logistics network and cross-border trade.

Financial Results for FY20

£m	Group FY20	Group FY19	Variance (£)	Variance (%)
Aeronautical	361.2	354.5	+6.7	+1.9%
Retail	200.0	198.1	+1.9	+1.0%
Car Parking	234.8	221.4	+13.4	+6.1%
Property	18.7	18.5	+0.2	+1.1%
Other	78.7	69.2	+9.5	+13.7%
Revenue	**893.4**	**861.7**	**+31.7**	**+3.7%**
Employee costs	(265.4)	(248.8)	(16.6)	(6.7%)
Non-employee costs	(245.9)	(257.0)	+11.1	+4.3%
Operating Costs	**(511.3)**	**(505.8)**	**(5.5)**	**(1.1%)**
Disposal of fixed assets	-	+1.8	(1.8)	(100.0%)
EBITDA - Continuing	**382.1**	**357.7**	**+24.4**	**+6.8%**
EBITDA - Discontinuing	25.4	22.1	+3.3	+14.8%

Source: MAG Annual Report & Accounts FY20

Despite the overall reduction in Group passenger numbers, MAG was still able to post an increase in total revenue of £31.7m (3.7%), driven primarily by car parking and aeronautical income as explained further below.

During the year the Group adopted IFRS16 which resulted in £28m of payments that would previously have been reported as rent and finance costs now being excluded from EBITDA. Group EBITDA increased by £24.4m to £382.1m (+6.8%) following the implementation of IFRS16. On a like for like basis, if FY20 had been prepared under IAS17 consistent with FY19, Group EBITDA decreased by £3.6m to £354.1m (-1.0%), principally as a result of reduced activity due to COVID-19.

Aeronautical Revenue

Group aeronautical revenue increased by £6.7m to £361.2m (+1.9%) despite the reduction in overall Group passenger numbers, driven by an increase in aeronautical yields of 4-5% at both MAN and STN, and a 13.8% increase in cargo income predominantly at EMA.

Retail Revenue

Retail revenue increased by £1.9m (1.0%) to £200.0m. Yield growth, particularly in Food & Beverage at STN, in the 11 months to February plus an increase in lounge volumes in MAG US were offset by the impact of the reduction in passenger numbers.

Prior to the impacts of the pandemic, Retail was continuing to benefit from the significant investment in the terminal transformation at STN, particularly through Food & Beverage. The emphasis has been on creating new, accessible commercial spaces and encouraging dwell time to increase retail yields.

Car Parking Revenue

Car parking revenue continued to grow strongly during the year, increasing by £13.4m (6.1%). Yield growth of 8-9% was delivered across all three MAG airports.

Car parking revenue was additionally boosted by a first full year's revenue from Looking4 and SkyParkSecure, online distribution businesses acquired during FY19, and via MAG US which commenced operating its first car parking contract during FY20.

Other Revenue

Other Revenue includes utility cost recharges, fees for airline services and aviation fuel sales. The increase of £9.5m (13.7%) in FY20 is driven by an increase in utilities recoveries, plus charges for baggage handling and common use passenger facilities following infrastructure investment in these areas.

Operating Costs

Operating costs (excluding depreciation) increased by £5.5m to £511.3m (1.1%). The Group experienced a £33.0m increase in its underlying cost base primarily driven by £20m increased expenditure at MAN and STN largely in customer support and security, and £7m of cost in connection with higher car parking activity levels.

These increases were partially offset by the adoption of IFRS16 resulting in a reclassification of £28.0m of lease costs from operating costs to depreciation (reported outside of EBITDA).

Property Development

Revenue from MAG's Property division was stable at £18.7m. There were no sales of property during the year, accordingly there was no profit or loss on disposal (2019: £1.8m profit).

During 2019, as part of MAGIL's long-term growth strategy, it commenced marketing for the sale of its non-core property portfolio with significant interest from potential buyers prior to COVID-19.. MAG is strategically intent on the disposal of its non-core properties as part of its focus on its core airport business during the next 12 months. Consequently, this business is reported as discontinued activities in MAGIL's Annual Financial Report and consolidated financial statements.

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 2020 was £543 million including £100 million on maintenance capex, £438 million on growth capex and £5 million on property investment.

MAN-TP spend represented 52% of the Group's total capital expenditure for the year, and continues to progress under revised plans. At 31 March 2020, £804m (93%) of the revised plan had been successfully invested. Phase 1 of the programme was completed on schedule, with both the new Pier 1 and the new multi-story car park at Terminal 2 becoming operational in April 2019. The opening of the extension of Terminal 2 will mark the completion of Phase 2 of the programme during FY21.

New check-in desks and multi-storey car park have been successfully opened as part of STN-TP.

Future phases of both transformation programmes are currently on hold as the economic environment normalises and the aviation market recovers.

Capital expenditure during FY20 also reflects ongoing investment in hold baggage screening, IT infrastructure, back-office systems and software to enable the Group to benefit from future 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.

Subsequent to the year end, on 1 April 2020 Interim General Counsel and Company Secretary Tom Keevil was replaced by Jenny Cochrane on a permanent basis. Jenny has been with MAG since 2013 having previously held the position of Legal Director with responsibility for the legal function across the Group. Prior to joining MAG Jenny worked in private practice and specialised in corporate finance.

There have been no other changes to the Board of Directors and Executive Committee for Manchester Airports Holdings Limited during the year or to the date of this report. The full lists of the Board of Directors and Executive Committee that were in position during the year ended 31 March 2020 is shown below.

Name	Role	Board of Directors	Executive Committee
Charlie Cornish	Group Chief Executive	✓	✓
Neil Thompson	Chief Financial Officer	✓	✓
Ken O'Toole	Chief Executive, Stansted Airport	✓	✓
Andrew Cowan	Chief Executive, Manchester Airport	✓	✓
Tom Keevil	General Counsel & Company Secretary (Interim)	Resigned Apr-20	Resigned Apr-20
Jenny Cochrane	General Counsel & Company Secretary	Appointed Apr-20	Appointed Apr-20
Sir Adrian Montague	Chairman	✓	
Sir Richard Leese	Voting shareholder-appointed Non-Executive Director	✓	
Cllr John Blundell	Voting shareholder-appointed Non-Executive Director	✓	
Manoj Mehta	Voting shareholder-appointed Non-Executive Director	✓	
Christian Seymour	Voting shareholder-appointed Non-Executive Director	✓	
Vanda Murray OBE	Independent Non-Executive Director	✓	
Robert Napier	Independent Non-Executive Director	✓	
Catherine Schefer	Independent Non-Executive Director	✓	
Jonathan Wragg	Independent Non-Executive Director	✓	
Andrew Harrison	Chief Executive of Airport Services		✓
Tim Hawkins	Chief Strategy Officer		✓
Karen Smart	Managing Director, East Midlands Airport		✓
Brad Miller	Chief Operating Officer, Manchester Airport		✓
Tricia Williams	Chief Customer Officer, Manchester Airport		✓

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

International Activities

MAG's initial entry into the North American Market has been focused on lounge concessions and car parking services. During the year six additional lounge concessions were launched at Ontario International Airport in Los Angeles, T.F. Green International Airport in Providence, two at Sacramento International Airport, Cincinnati/Northern Kentucky International Airport and at Phoenix Sky Harbor International Airport, increasing MAG's operations to 12 passenger lounges at March 2020. A further lounge contract was won at Fort Lauderdale-Hollywood International Airport during the year which MAG is planning to bring into operation in the forthcoming financial year ended 31 March 2021.

The contract at Ontario International Airport is a combined concession contract also including car parking. An additional car parking concession was added to the Group's portfolio at the Hollywood Burbank Airport in California. MAG US continues to target further car parking concessions, with a further 6 concessions in the process of contracting.

MAG US remained outside of the Security Group during the financial year and to the date of this report, and is mentioned in this report for information only. Over the forthcoming financial year to March 2021 MAG will undertake a corporate restructure impacting the Security Group. MAG US will be brought into the Security Group as part of this process. Further details are outlined below.

UK departure from the European Union

The UK's withdrawal from the European Union 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 following the end of the transition period when new rules come into force on 1 January 2021.

The UK Government remains confident that a Free Trade Agreement (FTA) can be reached to cover the wider UK economy. They have also confirmed that they are seeking to agree a Comprehensive Air Transport Agreement (CATA) with the EU that includes provisions on market access for air services, close cooperation on aviation security, and collaboration on air traffic management.

Outside of the EU27 countries, the UK Government has signed bilateral agreements with the majority of the other 17 countries with which the UK has access agreements by virtue of its membership of the EU. This ensures that when the UK leaves the EU, under whatever circumstances, access rights will be maintained to key aviation markets like the US and Canada

MAG will continue to work closely with the Government and the EU 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.

In January 2020 MAG was notified by the CAA that it would be carrying out a Market Power Determination at MAN later in the calendar year.

Consent Solicitation Process

As part of its strategic response to COVID-19, on 26 May 2020 the Group announced a consent solicitation process seeking the consent of the Obligor Security Trustee to the detailed requested consents as set out in detail in the STID Proposal.

The Group requested that the Obligor Security Trustee agree that (i) the Default Ratios will not be tested in respect of any Relevant Historic Period ending during the Waiver Period; (ii) the Default Ratios will be tested on 30 September 2021 by reference to the EBITDA for the 6 months ended 30 September, annualised on a seasonal basis; and (iii) the Security Group Agent is not required to confirm in the Compliance Certificate, for the duration of the Waiver Period, whether the Distribution Ratios in respect of the Relevant Forward Looking Period are or are not satisfied.

This request was subject to approval by Qualifying Obligor Secured Creditors and the injection of £300m of new funding by Shareholders.

On 26 June 2020 the Group announced the successful passing of the STID Proposal. Qualifying Obligor Secured Creditors holding 98.5% of Qualifying Obligor Senior Debt cast a vote in the process, of which, all voted in favour of the proposal. Accordingly the requested consents have been approved and these changes to the STID are now in effect. The £300m of new monies from Shareholders was received on 2 July 2020.

3. Financing

Revolving Credit and Liquidity Facilities

As at 31 March 2020 MAG had a £500 million revolving credit facility and a £90 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 enable 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 four capital markets instrument. The most recent transaction, a £350 million 2.875% 25 year bond, took place on 9 May 2019. 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% 2039 – issued November 2017, London Stock Exchange
- MAGAIR £350 million 2.875% 2044 – issued May 2019, London Stock Exchange

Credit Rating Agencies

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

[1] The original facilities have 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.

In response to the impacts of the global pandemic, in April Fitch Ratings revised its outlook on the Group from Stable to Negative, while affirming its rating of BBB+.

In June, Moody's also changed its outlook on the Group from Under Review to Negative, while affirming its rating of Baa1.

Liquidity

There is sufficient liquidity to fund MAG's operations over the short and medium-term. During March 2020 MAG drew down its £500m RCF in full in order to provide liquidity protection, as the impacts of COVID-19 started to be seen. The £484m balance at March 2020 reflected this drawdown, less amounts which have been carved-out in respect of £10m of overdrafts and £6m of performance bonds.

£271m of cash on deposit at March 2020, gave adequate liquidity ahead of the £300m of new capital injected by Shareholders in July 2020.

The £90 million Liquidity Facility provides further liquidity to pay more than 12 months of debt service obligations as they fall due.

MAG is actively in discussions with respect to the potential disposal of a portfolio of non-core property assets, which, if realised, would provide additional liquidity over the forthcoming financial year.

4. Changes to the Security Group Structure

During the financial year

On 26 February 2020 a new company MAG US (Apollo) Limited, company number 12485692, was incorporated within the Security Group. MAG US (Apollo) Limited became an Obligor on 22 May 2020.

On 27 February 2020 a new company MAG US (Apollo) Inc, a US company registered in the state of Delaware, file number 7873475, was incorporated within the Security Group.

The 2 new entities referred to above were incorporated as vehicles for the acquisitions which completed subsequent to the financial year end, as noted below.

On 9 March 2020 a new company MAGO Holdings Limited ("MAGOHL"), company number 12504680, was incorporated within the Security Group.

To the date of this report

Subsequent to the year end in June 2020, MAG US (Apollo) Inc acquired 100% of the issued share capital of airportparkingreservations.com LLC ("APR") and parksleepfly.com LLC ("PSF"); Connecticut registered companies trading as airport parking and hotel booking aggregators and distributors.

At the date of this report, MAG US (Apollo) Inc, APR and PSF are Non-Obligors. All three entities will accede as Obligors during the forthcoming financial year.

There have been no other new Obligors, or release of any other Obligors, during the financial year and to the date of this report.

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 during the financial year and to the date of this report.

Proposed Reorganisations

On 11 May 2020 MAG notified the Security Trustee of its intention to bring Airport Services International Limited ("ASIL") into the Security Group. ASIL has 5 subsidiaries and holds the trade of MAG's existing airport parking distribution businesses, Looking4 and SkyParkSecure which were both acquired during the financial year ending 31 March 2019 with details included in the accompanying Investor Report for the same year.

The two trading entities, Looking4Parking Limited ("L4P") and Skyparksecure Limited ("SPS"), that sit underneath ASIL will accede as Obligors following completion of the reorganisation.

A second reorganisation is proposed during the forthcoming financial year, to bring MAG Investments US Ltd ("MAGIUS") into the Security Group. MAGIUS has 4 subsidiaries and holds the trade of MAG's existing operations within the US; namely, its passenger lounges, car parking commercial services and distribution operations.

The three trading entities, MAG US Lounge Management LLC, MAG US Parking Management LLC and MAG US Terminal Management LLC, that sit underneath MAGIUS will accede as Obligors following completion of the 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 2020 fixed rate debt represented 81% of the Company's outstanding Relevant Debt.

During the financial year and to the date of this report, MAG held no derivative financial instruments in connection with interest rates.

Currency Risk

As at 31 March 2020 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.

Subsequent to the financial year end, MAG has entered into a vanilla forward currency contract to purchase USD $25m in April 2021 in order to settle deferred consideration payable in connection with the acquisitions of APR and PSF noted above.

6. Ratios

Financial Ratios

We confirm that in respect of this investor report dated 9 July 2020 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 5.6x; and
- the Leverage Ratio in respect of the Relevant Historic Period is or is estimated to be less than or equal to 4.5x (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.

Pursuant to clause 2.2 of the Amendment and Waiver Deed dated 26 June 2020 between the Obligors and the Obligor Security Trustee (the "Amendment and Waiver Deed"), no member of the Security Group, including the Parent, may make a distribution during the Waiver Period, unless it is a Permitted Share or a Distribution made to an Obligor. We confirm that the Parent will not make any distribution in respect of a final dividend following provision of this Compliance Certificate and not make a payment in September 2020 in respect of Interest on the Shareholders' Loan.

7. Distributions

Distribution Ratios

In line with the Common Terms Agreement dated 14 February 2014 between, among others, Manchester Airport Group Investments Limited as Security Group Agent and Citicorp Trustee Company Limited as the Obligor Security Trustee as amended on 26 June 2020 (the CTA) the Distribution Ratios in respect of the Relevant Forward Looking Period are not relevant to this report as a result of the waivers in place.

Distributions

We confirm that the amount of Distributions made since the Investor Report dated July 2019 is £231.9 million.

- July 2019: £128.0 million Final Dividend in respect of Financial Year 2019
- September 2019: £32.6 million Interest on Shareholders' Loans
- December 2019: £71.3 million Interim Dividend in respect of Financial Year 2020

In response to the ongoing financial impacts of the COVID-19 pandemic, £32.6 million of Interest due on Shareholders' Loans in March 2020 by Manchester Airport Finance Holdings Limited was rolled-up and not paid. Further, the Directors have recommended that there is no payment of a Final Dividend for Financial Year 2020.

Shareholder loans

There were no new issuances or repayments of shareholder loan notes during Financial Year 2020.

Subsequent to the year end and in response to the ongoing impacts of the COVID-19 pandemic, MAG's Shareholders injected £300m in the form of additional shareholder loan notes. The loan notes were issued in a single tranche in July 2020. Consistent with the pre-existing shareholder loan notes, the new loan notes were received outside of the Security Group and are mentioned in this report for information only. The £300m has been onwardly injected into the Security Group in the form of ordinary equity.

Proposed distributions

There are no distributions proposed subsequent to the date of this report.

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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