Manchester Airport Group Funding Plc

Annual report and financial statements

Registered Number 08826541

Year ended 31 March 2021

Contents

Directors' report

The directors present their directors' report and audited financial statements for the Company for the year ended 31 March 2021.

Principal activity

The principal activity of the Company during the year was acting as a debt issuing company on behalf of Manchester Airports Holdings Limited ('MAHL', the ultimate holding company of the Company). This activity is expected to continue for the foreseeable future. MAHL and its subsidiaries (including the Company) are referred to below as 'MAG' or 'the Group'.

Business review and future outlook

The results for the year are set out on page 13. During the year the Company made a profit before tax of £5,000 (2020: loss before tax of £20,000). At the year end the Company had net assets of £43,000 (2020: £38,000).

Impact of COVID-19

The COVID-19 pandemic has had an immense impact on the aviation industry, which is reflected in the figures contained within this report. However, the last year has seen swift, decisive steps taken by MAG's management to reduce costs and place the business in the strongest possible position to return to growth as international travel resumes in earnest.

We acted quickly to secure our strategic finance response to the pandemic. Our shareholders have supported us through this period with £300.0m of additional funding which – along with proceeds from the sale of part of the Group's property book – has given us a strong cash position throughout the crisis. We have also successfully negotiated new conditions on borrowing with our secured financing creditors, bondholders and banks, with waivers of financial covenant tests meaning that the Group's financial covenants will not be tested again until September 2022.

This support was provided partly in recognition of the strong management action we had already taken to control costs. This included a comprehensive review of all expenditure, pausing non-essential capital projects, freezing recruitment, temporarily reducing pay for all staff and reducing working hours. These were difficult but necessary decisions for us to take and we recognise the impact they have had on our people. We have had to ask our staff to make sacrifices to protect the future of the company.

The last 12 months has seen MAG work intensively with Government to ensure the industry is properly supported throughout the pandemic, in line with the support provided to airports on the continent and in Scotland and Northern Ireland, and to other sectors such as retail and hospitality in the UK. This has resulted in some limited support in the form of extensions to the Coronavirus Job Retention Scheme (CJRS) and the adoption of a more localised approach to travel corridors in summer 2020, enabling travel to popular island destinations such as the Balearics and the Canaries. In January 2021 the Government launched the Airport and Ground Operations Support Scheme (AGOSS) to provide up to £8.0m of support in FY21 to individual airports, helping to cover a small proportion of MAGs fixed costs. The AGOSS scheme has since been extended to also cover the first six months of FY22.

Despite MAG making extensive use of the CJRS, with up to 70% of colleagues on furlough, the reality is that this scheme has only accounted for less than 20% of our fixed operating costs. In October 2020, MAG became the latest aviation business to announce a consultation on redundancies across the Group. We have also negotiated a new, flexible pay deal with our Trade Unions for this financial year designed to avoid further compulsory redundancies. This sees colleagues return to 100% of their salary as workloads increase, while ensuring no colleague is paid less than 80%, and no less than the National Living Wage.

Throughout the last year, MAG has also worked hard to shape Government thinking around the safe resumption of international travel, and the reopening of international travel to and from the UK on 17 May 2021 was an important step in the right direction. Since then, we have continued to make the case for restriction-free travel to those countries where infection rates are at their lowest, greater transparency in how decisions are made on which countries are considered low-risk, and for the removal of the need for expensive PCR testing for all passengers.

Directors' report *(continued)*

Impact of COVID-19 (continued)

The control of the pandemic and the subsequent re-start of the aviation sector is now looking more certain with the global rollout of vaccines, comprehensive testing protocols and improvements in medical care. In addition, from 2 August 2021, fully vaccinated travellers from many European countries and the USA will not need to quarantine which has helped to re-start the UK aviation sector. However, it is clear that the recovery will take time with a phased opening up of International travel as country and border restrictions are eased, and the global economic impacts of the pandemic materialise. While there are still significant uncertainties, the Company expects traffic to return to close to pre-COVID-19 levels in the next two to three years and our robust finances and the support of our investors means we have maximum flexibility in how we approach the sectors recovery.

Brexit

In addition, Manchester Airports Group ('MAG'), the group of companies whose ultimate parent company is Manchester Airports Holdings Limited, and of which the Company is a member, has continued to work with industry partners to help shape the UK Government's approach to Brexit.

The UK reached an agreement with the EU on 24 December 2020, which was then ratified before the end of the transition period on 31 December 2020. The agreement covered all the key areas for airports' operations including continued operation of air services, close cooperation on aviation security, and collaboration on air traffic management. This has preserved the previous regime and allowed liberal access to the EU aviation market that MAG had been calling for in any EU-UK relationship following the end of the transition period. As a result of low passenger numbers there is still the need to closely monitor the impact on the aviation industry, we will continue to do this working closely with our partners to ensure a smooth border and customs process.

Climate change

Climate change is the defining challenge of our age. As governments respond to the climate challenge, next year will be an important opportunity for the UK government and the aviation industry to lead by example as global leaders gather in Scotland for COP26. MAG has been a climate leader for many years, operating the UK's first carbon neutral airports and – through its CSR Strategy – committing to achieve net zero carbon emissions no later than 2038. Tackling climate change requires a partnership between industry and government and this year I am delighted to see MAG's CEO join the Government's Jet Zero Council and to witness the launch of MAG's zero carbon flight competition – offering free landing fees to the first zero carbon aircraft at one of MAG's airports.

MAG continues to meet the 'comprehensive' standard for disclosures established by the Global Reporting Initiative, including the publication of a new climate data compendium. This report has also been enhanced, responding to recommendations from the Task Force on Climate-Related Financial Disclosures, demonstrating the focus MAG places on the risks posed by climate change and ensuring MAG's strategic and CSR reporting reflect the changes to environmental, social and governance (ESG) needs of investors.

Our mature understanding of physical climate risks directly informs asset standards and infrastructure planning. Further work to consider the financial implications of climate change will position MAG well as economies more generally decarbonise.

Principal risks and uncertainties

The key risks faced by the Company are aligned with those of Manchester Airports Holdings Limited. The key risks for the Company are COVID-19, Brexit and Climate change. For more details of these risks, and how they are managed please refer to pages 40 to 45 of the strategic report in the annual report and accounts for Manchester Airports Holdings Limited. The directors have not identified any other significant risks for the Company.

Directors' report *(continued)*

Key performance indicators ('KPIs')

Management have identified the relevant key performance indicator for the Company to be profit before taxation. For the group consolidated key performance indicators please refer to the strategic report in the annual report and accounts for Manchester Airports Holdings Limited. The directors have not used any additional KPIs for the company.

Manchester Airport Group Funding Plc achieved the following results against KPIs in the period:

	2021	2020
	£000	£000
Profit/(loss) before tax	**5**	(20)

Non - compliance with listed securities

Non-compliance with the listed securities requirements could result in sanctions or fines to the business, reputational damage with investors, and it could impact the ability to re-finance in the future. The risk is mitigated by having an Investor Engagement Plan in place, and through regular briefings to the Executive Committee undertaken by the Corporate Finance Director.

Corporate governance statement

The Company is a member of MAG and, as such, shares with all other members of that Group the internal control and risk management systems in relation to financial reporting processes. The MAHL audit committee, which has at least one independent member and at least one competent in accounting: (i) monitors the financial reporting processes of MAG; (ii) monitors the effectiveness of internal control, internal audit, and risk management systems in each case throughout MAG; (iii) monitors the statutory audit of the annual and consolidated accounts of MAHL; and (iv) reviews and monitors the independence of the statutory auditor, and in particular the provision of additional services to the members of MAG. The directors of the Company routinely attend meetings of the MAHL audit committee. In all the circumstances, the directors believe it is appropriate for reliance to be placed on the work of that audit committee relative to the Company's financial reporting processes, internal controls and risk management, and the quality and independence of its statutory auditor. The board of directors is made up of Executive and Non-Executive Directors which has established Audit, Corporate Social Responsibility and Remuneration Committees, all which have specific delegated authorities.

Further information in relation to the internal control and risk management systems affecting financial reporting processes in MAG appears in the annual report and accounts of MAHL for the year ended 31 March 2021. The group accounts are available to the public and may be obtained from the Company Secretary at Olympic House, Manchester Airport, Manchester M90 1QX, or via the website at www.magairports.com.

Directors

The directors who held office during the year and up to the date of signing the financial statements were as follows:

C Cornish

K O'Toole (appointed 30 October 2020)

J Bramall (appointed 30 October 2020)

N Thompson (resigned 30 October 2020)

Research and development

The Company did not incur any research and development expenditure during the year (2020: £nil).

Directors' report *(continued)*

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2020: £nil).

Financial risk management

The Company's activities expose it to a variety of financial risks. The Company's funding, liquidity and exposure to interest rate risks are managed by the Group's treasury function.

Treasury operations are conducted within a framework of policies, which are approved and subsequently monitored by the board. These include guidelines on funding, interest rate risk management and counterparty risk management.

For more details of the management of these risks please refer to page 40 of the annual report and accounts for Manchester Airports Holdings Limited. The directors have not identified any additional risks specific to this Company.

Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared a going concern assessment for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through funding from its ultimate parent company, Manchester Airports Holdings Limited, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Manchester Airports Holdings Limited not seeking repayment of the amounts currently due to the group, which at 31 March 2021 amounted to £80,494,000, and providing additional financial support during that period. Manchester Airports Holdings Limited has indicated its intention to continue to make available such funds as are needed by the Company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

However, continued support is dependent on the ability of the Manchester Airports Holdings Limited Group being able to settle its liabilities as they fall due. The directors of Manchester Airports Holdings Limited have concluded that a material uncertainty exists over the Manchester Airports Holdings Limited Group's ability to continue as a going concern as detailed in the basis of preparation on page 58 of Manchester Airports Holdings Limited annual report (approved on 8th July 2021) which is publicly available on the Company website.

Based on their enquiries the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Dividend

A dividend of £nil (2020: £nil) was declared and paid in the year.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' report *(continued)*

Statement by the Directors in Performance of their Statutory Duties in Accordance with section 172(1) Companies Act 2006

The Board of Directors are aware of and consider they have acted in accordance with their statutory duties under s172(1) of the Companies Act 2006. Consistent with these duties, the directors have acted in good faith, seeking to promote the long-term success of the Company for the benefit of shareholders and in so doing have had regard to their duties to:

- the likely consequences of any decisions in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between shareholders of the Company.

Independent auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Other information

An indication of likely future developments in the business and particulars of significant events which have occured since the end of the financial year have been included in the strategic report on pages 1 and 2.

By order of the Board

J Bramall
Director

30 September 2021

6th Floor
Olympic House
Manchester Airport
Manchester
M90 1QX

Statement of directors' responsibilities relating to the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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Independent auditor's report to the members of Manchester Airport Group Funding Plc

1 Our audit opinion is unmodified

We have audited the financial statements of Manchester Airport Group Funding Plc ("the Company") for the year ended 31 March 2021 which comprise the Income Statement and Other Comprehensive Income Statement, Statement of Financial Position, Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors soon after the Company was incorporated on 27 December 2013. The period of total uninterrupted engagement is for the seven financial years ended 31 March 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Independent auditor's report to the members of Manchester Airport Group Funding Plc *(continued)*

2 Material uncertainty related to going concern

	The Risk	**Our Response**
Going concern We draw attention to note 1 to the financial statements which indicates that the Company's ability to continue as a going concern is dependent on its ultimate Parent Company, Manchester Airports Holdings Limited continuing as a going concern. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.	**Disclosure quality** There is little judgement involved in the director's conclusion that the risks and circumstances described in note 1 to the financial statements represent a material uncertainty over the ability of the Company to continue as a going concern for a period of at least a year from the date of approval of the financial statements. However, clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.	**Our procedures included:** **Assessing transparency** - Considering whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, dependencies and related sensitivities. **Our assessment of management's going concern assessment also included:** **Funding Assessment-** We challenged the Directors on whether the ultimate parent company, Manchester Airports Holdings Limited, has the ability and intention of providing financial support to the Company. This included assessing the level of cash reserves available to the ultimate parent company and understanding the economic rationale for providing financial support. **Our results** - We found the disclosure of the material uncertainty to be acceptable (2020 result: acceptable).

3 Other key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other key audit matter in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Independent auditor's report to the members of Manchester Airport Group Funding Plc *(continued)*

3 Other key audit matters: including our assessment of risks of material misstatement *(continued)*

	The Risk	Our Response
Recoverability of amounts owed by group undertakings: **Risk vs 2020: Same** **Refer to page 18 (accounting policy) and page 23 (financial disclosures)**	**Low risk, high value** The amounts owed by group undertakings as at the year-end was £1,518.9m (2020: £1,463.2m).	**Our procedures included:** **Tests of detail** - Compared the amounts owed by group undertakings values to the net assets of the related party to identify whether the net asset values, being an approximation of their minimum recoverable amount, were in excess of their value. **Assessing subsidiary audits** - Assessed the work performed on all of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets. **Our results** We found that the Directors' conclusion that the amounts owed by group undertakings were recoverable was acceptable (2020 result: acceptable).

4 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £7.5m (2020: £7.5m), determined with reference to a benchmark of non-current assets of £1,518.9m (2020: £1,441.4m), of which it represents 0.5% (2020: 0.5%).

We agreed to report to the Group Audit Committee any corrected or uncorrected identified misstatements exceeding £0.3m (2020: £0.3m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's head office in Manchester.

5 Going concern basis of preparation

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company, or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic for at least a year from the date of approval of the financial statements ("the going concern period"). As stated in section 2 of our report, they have also concluded that there is a material uncertainty related to going concern.

An explanation of how we evaluated management's assessment of going concern is set out in section 2 of our report.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Independent auditor's report to the members of Manchester Airport Group Funding Plc *(continued)*

6 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included enquiring of directors and inspection of policy documentation as to the Group's policies and procedures to prevent and detect fraud that apply to this Group Company as well as enquiring whether the directors have knowledge of any actual, suspected or alleged fraud.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Company management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as going concern and recoverability of amounts owed by group undertakings. On this audit we do not believe there is a fraud risk related to revenue recognition because there are no revenue transactions.

We did not identify any additional fraud risks.

Further detail in respect of going concern and the recoverability of amounts owed by group undertakings are set out in the key audit matter disclosures in section 2 and 3 of this report.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to treasury with an opposing unusual account.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors (as required by auditing standards) and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

This Company, as a non-trading Company, is not subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent auditor's report to the members of Manchester Airport Group Funding Plc *(continued)*

7 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, expect as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and director's report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

8 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

9 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Independent auditor's report to the members of Manchester Airport Group Funding Plc *(continued)*

10 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Froom (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
30 September 2021

Income statement and other comprehensive income

for the year ended 31 March 2021

	Note	**2021**	2020
		£000	£000
Revenue		-	-
Operating costs	*2-3*	-	(25)
Operating loss		-	(25)
Interest receivable	*5*	**56,558**	55,221
Interest payable and similar charges	*6*	**(56,553)**	(55,216)
Profit/(Loss) before tax		**5**	(20)
Taxation		-	-
Profit/(Loss) for the financial year		**5**	(20)
Other comprehensive income for the year net of tax		-	-
Total comprehensive income/(expense) for the financial year		**5**	(20)

The results presented above are all derived from the Company's continuing operations.

The notes on pages 16 to 25 form an integral part of these financial statements.

Statement of financial position

at 31 March 2021

	Note	2021 £000	2021 £000	2020 £000	2020 £000
Non-current assets					
Amounts due from group undertakings	7		**1,438,168**		1,441,362
			1,438,168		1,441,362
Current Assets					
Trade and other receivables	8	**80,758**		21,843	
Cash at bank and on hand		**50**		638	
		80,808		22,481	
Current liabilities					
Trade and other payables	9	**(80,765)**		(22,443)	
Net current assets			**43**		38
Total assets less current liabilities			**1,438,211**		1,441,400
Non-current liabilites	10-11		**(1,438,168)**		(1,441,362)
Net assets			**43**		38
Capital & Reserves					
Called up share capital	12		**50**		50
Retained earnings	13		**(7)**		(12)
Shareholders' funds			**43**		38

The notes on pages 16 to 25 form an integral part of these financial statements.

These financial statements of Manchester Airport Group Funding Plc, registered number 08826541, were approved by the board of directors on 30 September 2021 and were signed on its behalf by:

J Bramall
Director

Statement of changes in equity
at 31 March 2021

	Called up share capital	Retained earnings	Total shareholders' funds
	£000	**£000**	**£000**
Balance at 1 April 2020	50	(12)	38
Total comprehensive income for the year			
Profit for the year	-	5	5
Total comprehensive income for the year	**-**	**5**	**5**
Balance at 31 March 2021	**50**	**(7)**	**43**

	Called up share capital	Retained earnings	Total shareholders' funds
	£000	**£000**	**£000**
Balance at 1 April 2019	50	8	58
Total comprehensive expense for the year			
Loss for the year	-	(20)	(20)
Total comprehensive expense for the year	**-**	**(20)**	**(20)**
Balance at 31 March 2020	**50**	**(12)**	**38**

The notes on pages 16 to 25 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

Manchester Airport Group Funding Plc (the 'Company') is a company incorporated, registered and domiciled in England and Wales in the UK. The registered number is 08826541 and the registered address is 6th Floor, Olympic House, Manchester Airport, Manchester, M90 1QX.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*'FRS 102'*). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, Manchester Airports Holdings Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Manchester Airports Holdings Limited, prepared in accordance with international accounting standards in conformity with the requirement of the Companies Act 2006, are available to the public, and may be obtained from 6th Floor, Olympic House, Manchester Airport, Manchester, M90 1QX

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 relating to the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the year;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

The Company has taken advantage of section 33.1A of FRS 102 and not disclosed transactions with fellow Manchester Airports Holdings Limited Group ('the Group' or 'Group') companies.

As the consolidated financial statements of Manchester Airports Holdings Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available relating to the following disclosures:

- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues relating to financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out over the page have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern and basis of preparation

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared a going concern assessment for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through funding from its ultimate parent company, Manchester Airports Holdings Limited, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Manchester Airports Holdings Limited not seeking repayment of the amounts currently due to the group, which at 31 March 2021 amounted to £80,494,000, and providing additional financial support during that period. Manchester Airports Holdings Limited has indicated its intention to continue to make available such funds as are needed by the Company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

However, continued support is dependent on the ability of the Manchester Airports Holdings Limited Group being able to settle its liabilities as they fall due. The directors of Manchester Airports Holdings Limited have concluded that a material uncertainty exists over the Manchester Airports Holdings Limited Group's ability to continue as a going concern as detailed in the basis of preparation on page 58 of Manchester Airports Holdings Limited annual report (approved on 8th July 2021) which is publicly available on the Company website.

Based on their enquiries the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Notes to the financial statements (continued)

1 Accounting policies *(continued)*

1.3 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium exclude amounts in relation to those shares.

1.4 Basic financial instruments

Trade and other receivables/payables

Trade and other receivables are recognised initially at transaction price less attributable transaction costs. Trade and other payables are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade receivables. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments, discounted at a market rate of interest for a similar debt instrument.

Amounts owed by/to group undertakings

Amounts owed by/to group undertakings are accounted for in line with normal trade and other receivables/payables (as above). Balances are presented as a receivable where the net balance with a given counter-party is a receivable, and as a payable where the net balance with a given counter-party is a payable.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.5 Impairment

Financial assets (including trade and other receivables)

A financial asset not carried at fair value through the income statement is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset, which can be estimated reliably.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

1.6 Expenses

Interest payable and similar charges include interest payable and amortisation of issue costs.

Interest income and interest payable are recognised in the income statement as they accrue, using the effective interest method.

1.7 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable relating to previous years.

As the taxation charged to the income statement in the period is £nil, management have not included a reconciliation in the notes to the financial statements from profit before tax to the total tax charged in the income statement.

1.8 Critical accounting estimates and judgements

In applying the Company's accounting policies, the Company has made estimates and judgements concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may, however, differ from the estimates calculated and management believe that the following are the more significant judgements affecting these financial statements.

Judgements

In applying the Group's accounting policies, the Group has made key judgements. Management believe that going concern categories contain the more significant judgements impacting these financial statements.

Going concern

The impact of COVID-19 has resulted in the group of companies headed by Manchester Airports Holdings Limited ("the Group") obtaining waivers from the requirements to perform loan covenant testing and obtain additional shareholder funding to ensure that the Company, supported by the Group, has adequate headroom going forward.

The directors of Manchester Airport Group Funding Plc have evaluated whether the actions of the Group, coupled with further mitigating actions that the Company and the Group can undertake are sufficient to ensure that the Company will continue as a going concern for plausible future trading scenarios reflecting the likely timing and rate of recovery of the sector.

By virtue of the directors concluding that the Group will be able to continue as a going concern, the directors have concluded to regard Manchester Airport Group Funding Plc as a going concern for the purpose of these financial statements. The going concern assessment of the Group is outlined at page 50 of the Manchester Airport Holdings Limited Annual Report and the going concern assessment of Manchester Airport Group Funding Plc is on page 17 of these financial statements.

Assumptions and estimation uncertainty

Information about assumptions and estimation uncertainty at the reporting date is detailed below:

Carrying value of non-financial assets

Estimates have been made in respect of the amounts of future operating cash flows to be generated by the Company, in order to assess whether there has been any impairment of the amounts of the Company's assets included in the statement of financial position.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Carrying value of non-financial assets (continued)

The directors have viewed that COVID-19 has acted as an impairment trigger of its long-term assets and consequently have assessed the recoverable amounts of the Company. The assessment of recoverable amounts based upon Value in Use projections of future operating cashflows of the business, which are based upon a range of assumptions of the timing and rate of economic recovery from the pandemic and the resultant impact upon the Company's trading levels.

The Company has considered future traffic levels projections issued by other industry participants in arriving at its own projections which were used for both the impairment review and the Company's going concern assessment. These projections considered the timing and rate of recovery to pre-COVID-19 activity levels. For impairment purposes long-term projections beyond the 5-year business plan time horizon were based upon long-term growth rates. Downside scenarios included low-growth assumptions in considering risks around recoverability of the assets carrying value.

Notes to the financial statements *(continued)*

2 Notes to the income statement

Auditor's remuneration

Amounts receivable by the Company's auditor and the auditor's associates relating to services to the Company have been borne by the Company's ultimate parent, Manchester Airports Holdings Limited. The proportion of the consolidated fee applicable to the Company is £7,000 (2020: £6,000).

3 Remuneration of directors

C Cornish and N Thompson were directors of Manchester Airports Holdings Limited during the year, and their aggregate remuneration is disclosed in that company's consolidated financial statements. The aggregate remuneration applicable to the Company based on services provided, is £168,000 (2020: £143,000).

4 Staff numbers and costs

The Company had no employees during the year (2020: nil). The remuneration of the directors has been borne by a fellow Group company, MAG Airport Limited.

5 Interest receivable and similar income

	2021	2020
	£000	£000
Interest income from group undertakings (see note 8)	**56,558**	55,221
	56,558	55,221

6 Interest payable and similar charges

	2021	2020
	£000	£000
Interest payable on bonds (see note 10)	**54,920**	53,842
Amortisation of issue costs	**1,633**	1,374
	56,553	55,216

Notes to the financial statements *(continued)*

7 Amounts due from group undertakings

	2021	2020
	£000	£000
Amounts due from group undertakings - interest-bearing	1,438,168	1,441,362
	1,438,168	1,441,362

The loans are made up of the following:

	2021	2020
	£000	£000
Intercompany loan at an interest rate of 4.125% due 2024	360,000	360,000
Intercompany loan at an interest rate of 4.75% due 2034	450,000	450,000
Intercompany loan at an interest rate of 2.875% due 2039	300,000	300,000
Intercompany loan at an interest rate of 2.875% due 2044	350,000	350,000
Less: discount on issue	(10,258)	(10,721)
Less: unamortised debt issue costs	(11,574)	(7,917)
	1,438,168	1,441,362

Amounts owed by group undertakings – interest-bearing at 31 March 2021 and at 31 March 2020 represent the advances made under a facility loan to Manchester Airport Group Finance Limited. At 31 March 2021, the average effective interest rate on the advances made under the loan facility was 3.76% (2020: 3.76%). The intercompany agreement includes any discount and issue costs associated with the bonds. See note 11 for more detail.

Impairment

The impairment assessment consisted of the a combined value in use of £4,843.8m for Manchester, Stansted and East Midlands Airport compared to the carrying amount of amounts owed by group undertakings of £1,518.9m.

The impairment testing calculated the recoverable amount of the amounts owed by group undertakings by comparing the carrying value to the value in use. Key assumptions for these calculations are those regarding discount rates, terminal value growth rates, expected changes to passenger and revenue growth rates, EBTIDA margin and the level of capital expenditure required to support trading.

The Group prepared cash flow forecasts derived from the most recent financial budgets approved by the Board covering five years and a detailed longer term forecasts to cover a further 20 years beyond that point. The budget reflected the business's best view of the timing and rate of recovery to pre-COVID-19 activity levels and estimated that MAG would return to 85% of pre-COVID-19 pax levels in FY22 and 95% in FY23. These projections for the timing and rate of pax recoveries are in line with the projections used for going concern. For the purposes of the impairment assessment the business reflected the budget for the first 5 years and considered a terminal value based upon a long-term growth reflecting estimated rates of inflation. The business used a budget of 5 years in line with guidance under IAS 36 to reflect the additional period for the business to return to normal trading levels post COVID-19 recovery.

The discount rates used in the cash flow forecasts have been estimated based on post-tax rates that reflect the market participant's assessment of the time value of money and the risks specific to the cash generating unit. In determining the discount rates, the Group has sought to arrive at a Weighted Average Cost of Capital (WACC) using the capital asset pricing model for a market participant. The post-tax rate used to discount the forecast cash flows was calculated as: pre-tax 8.55% (2020: 8.44%), post-tax 6.92% (2020: 6.84%).

Sensitivity analyses reflecting downside scenarios which: reflected increased discount rates of pre-tax 8.64% (post-tax 7.0%) and lower growth rates of 2.0%. The impact of these scenarios individually and combined result in no impairment.

Notes to the financial statements *(continued)*

8 Trade and other receivables

	2021	2020
	£000	£000
Other receivables	-	2
Amounts owed by group undertakings	80,758	21,841
	80,758	21,843

Amounts owed by group undertakings of £80,758,000 (2020: £21,841,000) are unsecured, interest-free and repayable on demand. Whilst each counterparty does not intend to seek repayment of amounts owed, management intend to settle amounts due to Group undertakings as part of a group-wide settlement exercise within the next 12 months and have therefore presented these balances within current assets.

9 Trade and other payables

	2021	2020
	£000	£000
Amounts owed to group undertakings	80,494	22,441
Interest accrued	202	1
Other taxation and social security	69	1
	80,765	22,443

Amounts owed to group undertakings of £80,494,000 (2020: £22,441,000) are unsecured, interest-free and repayable on demand. Whilst each counterparty does not intend to seek repayment of amounts owed, management intend to settle amounts due to Group undertakings as part of a group-wide settlement exercise within the next 12 months and have therefore presented these balances within current liabilities.

10 Non-current liabilities

	2021	2020
	£000	£000
Bonds (see note 11)	1,438,168	1,441,362
	1,438,168	1,441,362

As set out in the basis of preparation on page 17, the range of projected passenger levels in FY22 is highly dependent upon the timing of release of travel restrictions and success of the UK and overseas vaccination programmes. The expected impact on EBITDA over the next 12 months, would have placed MAG at risk of breaching its covenants when next tested at 30 September 2021. MAG has acted swiftly and has obtained comprehensive bank and bondholder support for its response, including obtaining waivers on its next two six-monthly financial covenant tests at 30 September 2021 and 31 March 2022, and a modified basis for covenant testing at 30 September 2022, removing any risk on financial covenants during the next financial year.

Notes to the financial statements *(continued)*

11 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. The amounts owed are due by fellow Group undertaking Manchester Airport Group Finance Limited. The bonds issued are subject to loan covenants relating to leverage and interest cover.

	2021	2020
Borrowings are repayable as follows:	**£000**	£000
Bonds	**1,460,000**	1,460,000
Less: discount on issue	**(10,258)**	(10,721)
Less: unamortised debt issue costs	**(11,574)**	(7,917)
Total interest bearing bonds	**1,438,168**	1,441,362

Maturity analysis of bonds is as follows:

	2021	2020
Amounts due after two years but no more than five years:	**£000**	£000
Bond 4.125% £360.0m due 2024	**360,000**	360,000
Total amounts due after two years but no more than five years:	**360,000**	360,000
Amounts due after more than five years:		
Bond 4.75% £450.0m due 2034	**450,000**	450,000
Bond 2.875% £300.0m due 2039	**300,000**	300,000
Bond 2.875% £350.0m due 2044	**350,000**	350,000
Total amounts due after more than five years:	**1,100,000**	1,100,000
Total interest-bearing loans and borrowings (gross)	**1,460,000**	1,460,000
Less: discount on issue	**(10,258)**	(10,721)
Less: unamortised debt issue costs	**(11,574)**	(7,917)
Total interest-bearing loans and borrowings (net)	**1,438,168**	1,441,362

12 Called up share capital

	2021	2020
	£000	£000
Issued, called up and fully paid		
50,000 Ordinary shares of £1 each	**50**	50
	50	50

Notes to the financial statements *(continued)*

13 Reserves

2021	Retained Earnings £000
At 1 April 2020	(12)
Profit for the year after taxation	5
At 31 March 2021	(7)

2020	Retained Earnings £000
At 1 April 2019	8
Loss for the year after taxation	(20)
At 31 March 2020	(12)

14 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of Manchester Airport Group Finance Limited. The smallest group in which the results of the Company are consolidated is that headed by Manchester Airport Group Investments Limited. The Company's ultimate parent is Manchester Airports Holdings Limited. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary at 6th floor, Olympic House, Manchester Airport, Manchester, M90 1QX, or via the website at www.magairports.com.

15 Post balance sheet events

On 3 June 2021, the Group successfully obtained consent from its banks and bondholders to waive covenant testing in September 2021 and March 2022 and modify the covenant test to be performed in September 2022.