Rail People
Real Expertise

Investor Report
1 July 2015 – 30 June 2016

1 GENERAL OVERVIEW

In the 12 months ending 30 June 2016, Angel Trains Group (the "**Group**"), delivered an EBITDA of £357.0m, a reduction of £20.5m on the previous 12 month period. This was mainly due to the reduction in rental income following the disposal of 95% of the Group's interest in the Locomotive Operating Leasing Partnership ("**LOLP**")(as planned) in October 2015. Standard & Poor's reaffirmed the Group's credit rating as BBB/Stable.

The intense period of refranchising activity continued during the year, with one short term extension (as a result of the Department for Transport's ("**DfT**") Single Tender Action ("**STA**") process), five extensions and two new leases entered into, accounting for 34.9% of the entire portfolio. Between 2016 and 2021 89.0% of the Group's assets will be due for re-lease. Note that this includes some of the franchises mentioned above; although they have been extended on a short term basis, they will need to be re-leased again by 2021. However, a significant amount (c.67.6%) of the Group's un-contracted capital rent is protected by Section 54 undertakings until 2021, with a proportion continuing beyond that until 2025. The Group ended the period with 98.6% of its assets on lease.

In August 2015, the entire interest held by Arcus European Infrastructure Fund ("**Arcus**") was acquired by two of the other existing shareholder groups, namely those managed by PSP Investments and AMP Capital Investors. Subsequently, in October 2015, entities managed by AMP Capital Investors also acquired the minority interests previously held by Prime Super Pty Limited and STC Funds Nominee Pty Limited to become the majority shareholder in the Group. This change provides the Group with a stable shareholder base to support the business over the coming years.

The fourth edition of *Long Term Passenger Rolling Stock Strategy* was published by the Rolling Stock Strategy Steering Group ("**RSSSG**")(a cross-industry group comprising Angel Trains and the other ROSCOs, the Association of Train Operating Companies ("**ATOC**") and Network Rail) in March 2016. The report outlines the best way to meet rising passenger demand over the next 30 years as well as how to maximise the potential benefits of the increased capacity that will be provided on the existing network and HS2. The report projects that the national fleet will grow by between 51 and 99 percent over that period, with an average of 17 new trains being delivered weekly between now and 2020. The report also acknowledges that rolling stock owners and operators have become increasingly innovative at adapting and extending the lives of older vehicles. For Angel Trains, this report provides continued confidence in the underlying demand for rolling stock and the long term sustainability of the ROSCO market.

The Group has evaluated the impact of the EU referendum result on the business. The Group's existing assets and activities are protected from any financial market disruption as all foreign currency and senior debt interest exposures are hedged. A sustained, negative outlook for the UK's economy or a contraction of economic activity in urban areas, especially the London area, might adversely impact the forecast growth of rolling stock demand and Angel Trains will monitor any change in trends as the Brexit negotiations develop.

2 SIGNIFICANT BUSINESS DEVELOPMENTS

2.1 New significant business developments for the period ending 30 June 2016

New Trains

The build phase for the 150 new Desiro City Class 707 vehicles, being built by Siemens for lease to Stagecoach South West Trains ("**SSWT**"), began in earnest during the year and is progressing on budget and slightly ahead of schedule. The Desiro City is a second generation Electric Multiple Unit ("**EMU**") commuter train designed to carry more passengers and to have a significantly reduced whole life, whole system cost, meaning each unit costs less to maintain, uses less power and causes less damage to infrastructure. The total value of this deal is £227.8m and the vehicles are due to be delivered from July 2017.

In April 2016, Angel Trains signed contracts to finance the procurement of 19 5-car AT300 bi-mode intercity trains. These trains will be built by Hitachi Rail Europe at its manufacturing facility in Newton Aycliffe, County Durham and utilised by First Group to deliver improvements in capacity, reliability and comfort on the new TransPennine Express ("**TPE**") franchise. The trains will be delivered from July 2019.

Refurbishment Projects

Angel Trains continues to engage with the supply chain to ensure that modification programmes are in place to make sure all its fleets will comply with PRM (Persons of Reduced Mobility) regulations by the deadline of 31 December 2019. Some of these programmes involve large amounts of capital expenditure, as detailed in section 4.1, but this investment will ensure these vehicles can continue in service for years to come.

2.2 Re-leasing activity and current fleet utilization

As at 30 June 2016 Angel Trains owned 4,321 rolling stock vehicles (plus a further 150 in the build phase), with a fleet utilisation of 98.6%.

The following leases were extended during the period, on existing or improved terms, as the result of short-term franchise awards/extensions;

- London Midland – The franchise was extended from September 2015 to 1 April 2016, securing the continued lease of 166 DMU and EMU vehicles (Class 150 and Class 350). Subsequently, a further STA was signed for the period between 1 April 2016 and 15 October 2017
- Southern/Thameslink – 120 EMU vehicles (Class 442) were integrated into the Thameslink, Southern and Great Northern ("**TSGN**") franchise from July 2015 and are on lease until between January 2016 and January 2019
- East Midlands – The franchise was extended from 18 October 2015 to 4 March 2018, securing the continued lease of 46 DMU vehicles (Class 153, Class 156 and Class 158).
- Grand Central - The franchise was extended from 31 December 2016 to 31 December 2017, securing the existing rents for 24 HSTs at current capital rent levels.
- TransPennine Express - The franchise was extended from 31 March 2016 to 30 April 2019, securing an 11% uplift in capital rent for 40 Class 350 vehicles.
- Virgin West Coast Trains - The franchise was extended from 1 April 2017 to 1 April 2018, securing existing capital rents for 574 Class 390 vehicles.

The following new leases were entered into following the award of new franchises;

- 333 vehicles have been leased to Abellio Scotrail (“**ASR**”):
    - o 76 x Class 156 vehicles leased from April 2015 to March 2025
    - o 18 x Class 156, 16 x Class 158 and 48 x Class 314 vehicles leased from April 2015 to December 2018
    - o 175 x HST vehicles will be transferred from Great Western Railway (“**GWR**”)(formerly First Great Western) and leased to ASR from September 2017 to March 2025, with a Section 54 until 2030

- The Northern franchise was awarded to Arriva from April 2016. The following fleets will remain with Northern:
    - o 158 x Class 142 and 10 x Class 153 until 31st Dec 2019
    - o 94 x Class 150, 58 x Class 156, 54 x Class.158 and 64 x Class 333 until 31st March 2025
- The following fleets will be leased from other franchises:
    - o 40 x Class.150 from Greater Western until 31st March 2025
    - o 6 x Class 150 from London Midland until 30th June 2017
    - o 16 x Class 158 from Scotrail until 31st March 2018

The following leases were extended or entered into during the period outside of the refranchising process;

- 32 x Class 317/7 and 24 x Class 317/8 vehicles with London Overground for 3 years until December 2018. The Class 317/7 vehicles had previously been off lease, so this contract resulted in the Group achieving 100% vehicle utilisation for a period of time.

In October 2015, DB Schenker exercised its option to acquire the 95% interest in LOLP owned by Angel Trains Limited. LOLP owns the 279 Class 66 and 67 locomotives which are leased to DB Schenker Rail. The remaining 5% was anticipated to be disposed of in July 2016.

The table below summarises the Angel Trains fleet by lease counterparty at 30 June 2016:

Fleet by Lease Counterparties

FRANCHISE OWNER	TOC	TOTAL VEHICLES	LEASE END DATE	VEHICLES LEASED	FRANCHISE (F) / OPEN ACCESS (OA)
Arriva plc (subsidiary of Deutsche Bahn)				**17.26%**	
	Arriva Trains Wales/Trenau Arriva Cymru Ltd	153	Oct-18	3.54%	F
	Grand Central Railway Company Limited	49	Dec-17	1.13%	OA
	XC Trains Limited	19	Oct-16	0.44%	F
	Arriva Rail North Ltd	428	Dec-19	9.91%	F
	Chiltern Railway Company Limited	97	Dec-21	2.24%	F
DB Schenker				**0.09%**	
	DB Schenker Rail (UK)	4	May-19	0.09%	F
First / Keolis				**0.93%**	
	First / Keolis Transpeninne Express	40	Apr-19	0.93%	F
First Group plc				**15.04%**	
	Hull Trains Company Limited	20	Dec-19	0.46%	OA
	First Greater Western Limited	630	Aug-17	14.58%	F
Govia (Go-Ahead plc 65% / Keolis 35%)				**13.19%**	
	Govia Thameslink Railway Limited	118	Dec-16	2.73%	F
	London & Birmingham Railway Limited	166	Oct-17	3.84%	F

London & South Eastern Limited	286	Jun-18	6.62%	F
MTR / DB Schenker (subsidiary of Deutsche Bahn)			**1.67%**	
London Overground Rail Operations	72	Nov-16	1.67%	F
National Express Group			**2.59%**	
C2C Rail Limited	112	Nov-29	2.59%	F
Serco / Abellio			**13.96%**	
Merseyside Passenger Transport Services Ltd	177	Dec-18	4.10%	F
Abellio Greater Anglia Ltd	268	Oct-16	6.20%	F
Abellio ScotRail Ltd	158	Mar-25	3.66%	F
Stagecoach Group			**18.02%**	
East Midlands Trains Limited	46	Mar-18	1.06%	F
Stagecoach South Western Trains Ltd	733	Feb-17	16.96%	F
Virgin Rail Group (Virgin/Stagecoach joint venture)			**16.03%**	
Virgin Trains East Coast	119	Dec-18	2.75%	F
Virgin West Coast Trains	574	Mar-18	13.28%	F
Off lease			**1.20%**	
Off Lease	52		1.20%	
Grand Total	**4,321**			

2.3 Significant Board/Management changes for the period ending 30 June 2016

There were no significant board or management changes during the 12 months ending 30 June 2016.

3 REGULATORY / GOVERNMENTAL DEVELOPMENTS

3.1 Significant announcements/publications by any regulator or relevant government department for the period ending 30 June 2016

A further updated refranchising programme was published by the DfT in May 2016 which included additional franchise extensions and/or directly awarded franchises (i.e. without a competitive tendering process) with existing operators. This leads to further delays in the commencement of some long term franchises. The table below summarises the latest position:

Franchise	Original Franchise Expiry Date (incl. contractual extension options)	New Expiry Date	Duration of short-term arrangement
Northern	April 2014	April 2016	24 months (now re-let)
TransPennine Express	April 2015	April 2016	12 months (now re-let)
Great Western	October 2013	Sept 2015 then extended to March 2019	77 months
East Anglia	July 2014	October 2016	27 months
West Coast	November 2014	April 2017 then extended to April 2018	41 months
West Midlands	April 2016	October 2017	18 months
East Midlands	October 2015	July 2018	33 months
South Eastern	October 2014	June 2018	45 months
South Western	February 2017	June 2017	4 months
Cross Country	October 2016	October 2019	36 months

The impact of the above announcements on Angel Trains remains broadly beneficial, particularly for the DMU portfolio, which now has later lease expiry dates than previously envisaged.

4 CAPITAL EXPENDITURE

4.1 Material matters of capital expenditure including future commitments made during the relevant period

During the period the Group made capital expenditure payments of £79m, all of which were funded using internal cash resources;

- The majority of this spend relates to stage payments and capitalised interest of £22.3m for the 95 Class 802 vehicles which will be leased to FTPE
- £9.5m relates to CSO/PRM modifications for the HSTs on lease to GWR (to be transferred to ASR from September 2017)
- £8.4m relates to stage payments and capitalised interest for the 150 Class 707 vehicles
- £7.6m relates to refresh & reconfiguration and intelligent train modifications for the Class 357 vehicles on lease to National Express c2c ("**c2c**")
- £7.2m relates to CSO modifications for the Class 317 vehicles on lease to Greater Anglia, Govia Thameslink Railway ("**GTR**") and London Overground Rail Operations Ltd ("**LOROL**")
- £3.4m relates to PRM/CSO modifications for the Class 16x vehicles on lease to GWR and Chiltern Railways
- £3.4m relates to lease extension modifications for the Class 50x vehicles on lease to Merseyrail
- £2.8m relates to final drive modifications for the Class 142 vehicles on lease to Arriva Rail North ("**ARN**") and Arriva Trains Wales ("**ATW**")

The remaining £14.1m relates to various smaller enhancement and refurbishment projects.

The Group had total capital commitments of £588.5m as at 30 June 2016:

- £212.8m in stage payments for the new Class 802 Hitachi bi-mode vehicles for FTPE
- £127m in stage payments for the new Class 707 Desiro City vehicles for SSWT
- £74.1m relating to PRM/CS/Refresh modifications for HST's leased to GWR (to be transferred to ASR from September 2017)
- £29.2m relating to PRM/CSO modifications for the Class 465 vehicles on lease to London & South Eastern Railway as part of the STA
- £28.3m relates to PRM/CSO modifications for the Class 158 vehicles on lease to ARN, EMT, ASR and ATW
- £24.3m relating to PRM/CSO modifications for the Class 156 vehicles on lease to EMT, ASR and ARN
- £23.2m relating to lease modifications to the Class 15x & 333 vehicles on lease to ARN
- £20.8m relating to Direct Award modifications for the Class 15x and 16x vehicles on lease to GWR
- £17.5m relating to PRM/CSO modifications for the Class 150 vehicles on lease to GWR, ARN and London Midland
- £10.1m relating to PRM/CSO modifications for the Class 165 vehicles on lease to GWR and Chiltern

The remaining £21.2m relates to various enhancement and refurbishment projects, including Class 317 CSO works, SSWT MK4 TPWS modification, LOROL Class 172 spares purchase, c2c Intelligent Train modification and Virgin Trains East Coast HST refresh and reliability.

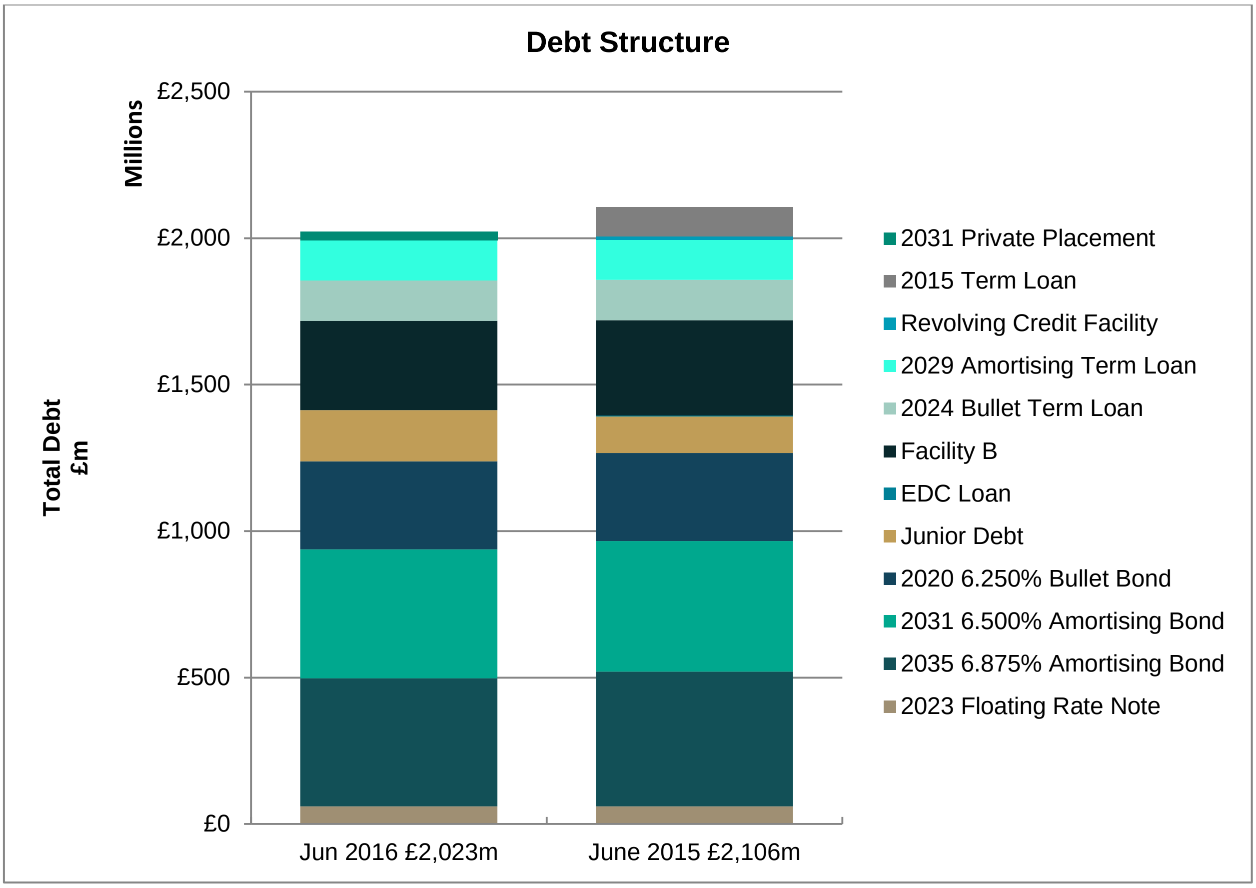
5 FINANCING

5.1 Total debt outstanding at 30 June 2016

Debt Facility	Group Entity	Balance Outstanding*	Issue/Facility Limit	Maturity Date
Total Debt Outstanding £				
4-yr Amortising Debt	The Great Rolling Stock Company PLC	305,000,000	305,000,000	Apr-18
Revolving Credit Facility	The Great Rolling Stock Company PLC	-	325,000,000	Nov-21**
15-yr Amortising Debt	The Great Rolling Stock Company PLC	137,500,000	137,500,000	Nov-29
10-yr Bullet Debt	The Great Rolling Stock Company PLC	137,500,000	137,500,000	Nov-24
10-yr Bullet Bond	The Great Rolling Stock Company PLC	300,000,000	300,000,000	Jul-20
25-yr Amortising Bond	The Great Rolling Stock Company PLC	440,600,000	440,600,000	Jul-35
20-yr Amortising Bond	The Great Rolling Stock Company PLC	437,000,000	437,000,000	Apr-31
Floating Rate Note	The Great Rolling Stock Company PLC	60,000,000	60,000,000	Aug-23
US Senior Private Placement	The Great Rolling Stock Company PLC	30,000,000	30,000,000	Jun-2031
Junior Debt	Willow Holdco 1 Limited	125,000,000	125,000,000	Nov-21
US Junior Private Placement	Willow Holdco 1 Limited	50,000,000	50,000,000	Jun-2024
Grand Total		**2,022,600,000**	**2,347,600,000**	

* Gross of capitalised fees
** Assumes exercise of option for additional year

5.2 Debt structure: June 2015 v June 2016



6 HISTORICAL FINANCIAL PERFORMANCE AND RATIOS

6.1 Update on financial performance for the period including ratios

EBITDA for the period, the Group's key measure, was £357.0m. This was in line with the budget and was a 5.4% decrease on the previous 12 months' results. This is mainly due to the reduction in rental income from the LOLP partnership, 95% of which was disposed of as planned in October 2015. Turnover for the period was £468.7m (2015: £492.8m) and Profit Before Tax was £72.6m (2015: £136.4m). The decrease from 2015 is mainly due to the profits from the LOLP disposal. Staff and overhead costs were £1.5m below budget at £23.2m (2015: £23.6m).

The Group's total external debt (including £175m junior) at 30 June 2016 was £2,023m, compared to £2,106m at 30 June 2015. The net decrease of £83.8m was due to:

- £49.0m of contractual amortisation of Facility B and the Amortising Bonds
- £11.8m repaid on the Revolving Credit Facility
- £103.0m repayment of the £100m term loan and the EDC loan, funded with the cash proceeds received from the disposal of LOLP
- This was partially offset by two new private placements procured during June 2016: a £50m junior facility and £30m senior facility

All senior floating rate debt and foreign exchange exposures remained hedged and no speculative derivatives were executed.

The Senior Interest Cover ratio for the period ending 30 June 2016 was **2.4**, compared to the financial covenant requirement of ***at least 1.5:1***.

The Senior Leverage ratio for the period ending 30 June 2016 was **5.0**, compared to the financial covenant requirement of ***no greater than 8.5:1***.

6.2 Credit ratings

Standard & Poor's ("**S&P**") issued a summary credit report on Willow Bidco Limited, the Group's holding company for senior debt purposes, on 15 March 2016. The report again affirmed the Group's credit rating as **BBB/Stable** and made reference to the "*high utilization rates of assets, which we expect to be maintained*" and *"predictable long-term contractual cash flows."* S&P also commented that the Group *"benefits from a strong and stable market position."*

7 OTHER MATTERS

7.1 Other financial and business matters

The Group's approval as a supplier under the Rail Industry Supplier Approval Scheme ("**RISAS**") was reconfirmed for a further three years in July 2015. Angel Trains maintains RISAS approval in support of its provision of vehicle overhaul and engineering services to demonstrate that its processes are both robust and continuously improving. Angel Trains was involved at the inception of the RISAS scheme, was the first ROSCO to gain approval itself and has representation on the RISAS board.

The externally run annual employee survey was conducted in September 2015, yet again achieving a fantastic response rate of 95% (2014: 93%). The results themselves were also very positive, with the overall “engagement rating” up on 2014 at 92% (2014: 84.4%) against a national benchmark of 69.8% (2014: 69.8%), and a general satisfaction rate of 8.1 out of 10 (2014: 8.0).

Angel Trains’ Graduate Training Scheme was accredited by both the Institution of Mechanical Engineers (IMechE) and the Institution of Engineering and Technology (IET) in December 2015. The accreditation demonstrates that the scheme meets the needs of both institutions for graduates to demonstrate the competencies required to achieve Chartered Engineer status. The accreditations will make it easier to attract high calibre graduates as places on accredited schemes are highly sought after.

In the same month, the Group was assessed by Investors in People for the first time and was delighted to be awarded a silver standard. The assessor’s view was that the business only just fell short of the level required for a gold standard, which was remarkable for an organisation taking part for the first time and demonstrates the Group’s commitment to the continued development of its employees.

Angel Trains, 18 August 2016