



**Angel Trains Investor Report**  
**Year Ended 31<sup>st</sup> December 2010**

## 1. GENERAL OVERVIEW

2010 was a productive year for Angel Trains (the “Group”), with key achievements in many areas:

- A £4 billion bond programme was launched on the Luxembourg Stock Exchange, with £800 million of bonds issued in July 2010.
- The Group delivered the first 11-car *Pendolino* train in the UK and delivered Class 172 trains, built by Bombardier, to London Overground. Additional HSTs (High Speed Trains) were purchased from Grand Central and re- leased. The percentage of assets on lease remains at a significantly high level, with 99.4% of the fleet on lease.
- A material level of debt (£47m) was repaid voluntarily in 2010, underpinning the Group’s commitment to deleverage the business.
- Our relationships with both the Department for Transport (“DfT”) and the Government continued to strengthen.

The environment remains challenging, with the DfT and the Office of Rail Regulation launching the Rail Value for Money Study, but the Group is well positioned to respond to potential changes.

## 2. SIGNIFICANT BUSINESS DEVELOPMENTS

### 2.1. New significant business developments for the year ended 31 December 2010

#### Bond Programme

In July 2010, £813m of floating rate bank debt was refinanced by £800m of bonds (together with £13m of internal cash reserves). The bond issue comprised a £300m 10-year bullet bond and a £500m 25-year amortising bond (with a 14 year weighted average). The refinancing required the successful completion of several re-structuring activities, including: the breakage of an associated amount of interest rate swaps; converting the bond issuer to PLC status; undertaking a security refresh and amending existing bank facilities.

#### New Trains

The Group’s New Build projects progressed during the year. The first Alstom build 11-car *Pendolino* train was delivered in the UK in December 2010. The overall project involves the Group purchasing four 11-car trains and 31 pairs of “10th” and “11th” cars to extend also the Group’s existing

*Pendolino* Class 390's (31 trains) to 11-car trains. Eight Class 172 Bombardier trains were delivered to London Overground in September 2010. Four additional trains are being manufactured currently for delivery to Chiltern Railways during 2011. Three HST trains were acquired from Grand Central, bringing the total number of HSTs to 51 trains.

#### Fleet Performance.

There was a significant improvement in the performance of the Class 180 and Class 442 fleets. Also, Angel Trains' owned fleets topped the performance table of the new EMU (Electric Multiple Unit) category.

#### Process & Systems Review

The Group commenced a project to review the effectiveness of its processes and systems. Phase 1 was completed in 2010, with later phases, including the commenced implementation of any new systems (if required), planned for 2011.

## **2.2. Re-leasing activity and current fleet utilization**

As at 31 December 2010, Angel Trains owned 4,450 rolling stock vehicles, with a fleet utilisation of 99.4%. There was limited re-leasing activity in the Relevant Period. Re-leasing rents obtained were in line with expectations.

- 16 vehicles (Class 158) were re-leased to First ScotRail until the end of 2014.
- 30 vehicles (Class 150) were re-leased to Greater Western until March-13.
- 28 Vehicles (Class 150) were re-leased to Northern until Sep-13.

In addition, to re-leasing activity:

- a purchase and lease back agreement was entered into with Grand Central for 24 HST vehicles. The lease ends in Dec-2016.
- 16 new build vehicles (Class 172) were delivered and are on lease with London Overground until Nov-2014.

The following table summarises the Angel Trains fleet by lease counterparty:

Fleet by Lease Counterparties					
FRANCHISE OWNER	TOC	TOTAL VEHICLES LEASED	REMAINING LEASE TERM	VEHICLES LEASED	FRANCHISE (F) / OPEN ACCESS (OA)
<b>Arriva plc</b>				<b>3.9%</b>	
	Arriva Trains Wales/Trenau Arriva Cymru Ltd	153	Oct-18	3.4%	F
	XC Trains Limited	19	Nov-13	0.4%	F
<b>Central Government</b>				<b>3.2%</b>	
	East Coast Mainline Company Limited	144	Nov-13	3.2%	F
<b>DB Schenker</b>				<b>8.3%</b>	
	Chiltern Railway Co.	89	Dec-21	2.0%	F
	DB Schenker Rail (UK)	282	Oct-15	6.3%	F
<b>First Group plc</b>				<b>18.1%</b>	
	First Capital Connect Limited	48	Mar-15	1.1%	F
	Hull Trains Company Limited	20	Dec-14	0.4%	OA
	First Greater Western Limited	576	Mar-13	12.9%	F
	First ScotRail Limited	160	Nov-14	3.6%	F
<b>Govia (Go-Ahead plc 65% / Keolis 35%)</b>				<b>13.8%</b>	
	London & Birmingham Railway Limited	174	Nov-13	3.9%	F
	London & South Eastern Limited	322	Mar-12	7.2%	F
	Southern Railway Limited	120	Jul-14	2.7%	F
<b>Local Government</b>				<b>4.0%</b>	
	Merseyside Passenger Transport Services Ltd	177	Mar-15	4.0%	F

<b>Fleet by Lease Counterparties (continued)</b>					
<b>FRANCHISE OWNER</b>	<b>TOC</b>	<b>TOTAL VEHICLES LEASED</b>	<b>REMAINING LEASE TERM</b>	<b>VEHICLES LEASED</b>	<b>FRANCHISE (F) / OPEN ACCESS (OA)</b>
<b>MTR / DB Schenker</b>				<b>0.4%</b>	
	London Overground Rail Operations	16	Nov-14	0.4%	F
<b>National Express Group</b>				<b>9.8%</b>	
	C2C Rail Limited	112	May-11	2.5%	F
	London Eastern Railway Ltd	324	Mar-11	7.3%	F
<b>Serco / Nedrailways</b>				<b>9.0%</b>	
	Northern Rail Limited	400	Sep-13	9.0%	F
<b>Stagecoach Group</b>				<b>17.3%</b>	
	East Midlands Trains Limited	38	Nov-13	0.9%	F
	Stagecoach South Western Trains Ltd	733	Jan-14	16.5%	F
<b>SULA TOC (Private Equity)</b>				<b>1.1%</b>	
	Grand Central Railway Company Limited	49	Dec-16	1.1%	OA
<b>Virgin Rail Group (Virgin 51% / Stagecoach 49%)</b>				<b>10.5%</b>	
	Virgin West Coast Trains	468	Mar-12	10.5%	F
<b>Off lease</b>				<b>0.6%</b>	
	Off Lease	26		0.6%	
<b>GRAND TOTAL</b>		<b>4,450</b>		<b>100.0%</b>	

### 2.3. Significant Board/Management changes for the year ended 31 December 2010

Two new non-executive directors were appointed during the year:

**Sir David Rowlands** (Non-Executive Chairman of Angel Trains Group Limited, appointed 1 January 2010)

Sir David Rowlands was permanent secretary at the Department for Transport from 2003 until his retirement from the civil service in 2007. Sir David was recently appointed as chairman of London Gatwick Airport following its divestiture from BAA. He is also a member of the Royal Automobile Club Foundation's public policy committee, a governor of Anglia Ruskin University and deputy chairman of The Lifeboat Fund, a public service charity.

**Christopher Cornforth** (Non-Executive Director of Angel Trains Group Limited, appointed 8 July 2010)

Christopher Cornforth has over twenty-five years of corporate finance experience gained working at Nordic Bank, Security Pacific Merchant Bank and Rothschild. The majority of this time was spent at Rothschild where he was a Director of N M Rothschild & Sons Limited and N M Rothschild Corporate Finance Limited, and advised on a wide range of acquisition, disposal and financing transactions including those in the rail sector.

In addition, the following director changes occurred within the Group companies:

- Roger Bowker (appointed 1 January 2010)
- Francesco Nale (appointed 8 April 2010)
- Rob Verrion (appointed 25 May 2010)
- Dylan Foo (appointed 21 September 2010)
- Attila Balogh (appointed 21 September 2010)
- Jeffrey Mouland (appointed 21 December 2010)
- Simon Gray (resigned 7 April 2010)
- Rob Gregor (resigned 25 May 2010)
- Steven Lowry (resigned 10 September 2010)
- Patrick Samson (resigned 15 December 2010)

### 3. HISTORICAL REGULATORY / GOVERNMENTAL DEVELOPMENTS

#### 3.1. Significant announcements/publications by any Regulator or relevant government department for the year ended 31 December 2010

In April 2009, the **Competition Commission** published its final report on the competitive nature of the rolling stock leasing market and, in particular, the behaviour of Rolling Stock Companies (“ROSCOs”). The main remedy aimed at ROSCOs was *The Rolling Stock Leasing Market Investigation Order 2009*, which was implemented in February 2010. The Order is intended to improve the bargaining position of the Train Operating Companies in their negotiations with the ROSCOs, through greater transparency of information. In particular, the Order requires that whenever a ROSCO proposes rolling stock lease terms to a Train Operating Company, that offer includes a specific and highly detailed set of information about the rolling stock in question. Prior to the Order coming into effect, the Group implemented detailed processes and procedures to ensure full compliance with the Order.

In September 2010, the **DfT** and the **Office of Rail Regulation** published their interim report on the scope of potential cost savings in GB Rail (the Rail Value for Money Study, chaired by Sir Roy McNulty). The study’s objective is to examine the overall cost structure of all elements of the railway sector (including ROSCOs) and to identify options for improving value for money to passengers and the taxpayer while continuing to expand capacity as necessary and drive up passenger satisfaction. The initial findings of the interim report called for a much stronger focus by the industry at all levels on costs and cost reduction, and on the investment needed to reduce future costs. The Group has been actively involved in the review, promoting the value which Angel Trains, and other ROSCOs, contribute to the Rail Industry.

#### 4. HISTORICAL CAPITAL EXPENDITURE

##### 4.1. Material matters on capex expenditure including future commitments made during the relevant period

During the Relevant Period, Angel Trains made capital expenditure payments of £43.8m, all of which were funded using internal cash resources:

- Stage payments of £13.3m were made and 16 new vehicles (Class 172) were delivered.
- £9.5m related to the purchase and lease back on HST vehicles with Grand Central.
- The remaining £21.0 relates to several different enhancement and refurbishment projects.

Angel Trains as at 31 December 2010 had total capital commitments of £108.3m:

- £68.2m represents the remaining stage payments for the new Class 390 vehicles (*Pendolinos*) to be delivered over the next two years.
- £4.3m represents the remaining stage payments for the new Class 172 vehicles to be delivered this year.
- The remaining £35.8m relates to several different enhancement and refurbishment projects.

## 5. FINANCING

### 5.1. Total debt outstanding

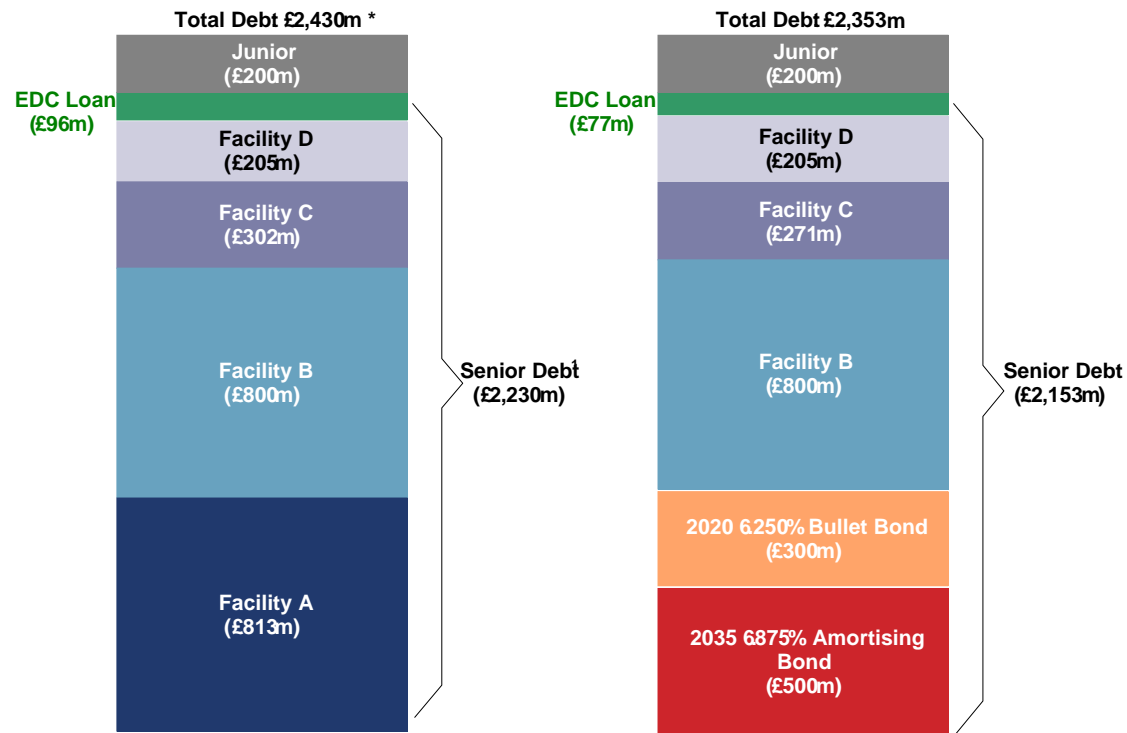
<b>Total Debt Outstanding</b>				
<b>Debt Facility</b>	<b>Group entity</b>	<b>Balance Outstanding</b>	<b>Facility Limit</b>	<b>Maturity Date</b>
Facility B	The Great Rolling Stock Company Ltd	800,000,000	800,000,000	Jun-13
Facility C	The Great Rolling Stock Company Ltd	270,633,627	270,633,627	Jun-15
Facility D	Willow Bidco Limited	205,000,000	250,000,000	Jun-13
Revolver	Willow Bidco Limited	-	25,000,000	Jun-13
EDC Loan	Locomotive Operating Leasing Partnership	76,951,233	76,951,233	Oct-15
Junior Debt	Willow Holdco 1 Limited	200,000,000	200,000,000	Jun-16
Bullet Bond	The Great Rolling Stock Company Ltd	300,000,000	300,000,000	Jul-20
Amortising Bond	The Great Rolling Stock Company Ltd	500,000,000	500,000,000	Jul-35
<b>Grand Total</b>		<b>2,352,584,860</b>	<b>2,422,584,860</b>	

The existing Intercreditor Agreement (dated 31 July 2008) currently applies.

5.2. Capital structure: December 2010 v December 2009

December 2009 Capital Structure

December 2010 Capital Structure



\* Total Debt (31 Dec 2010) includes £14m of drawn revolver facility

## 6. HISTORICAL FINANCIAL PERFORMANCE AND RATIOS

### 6.1. Update on financial performance for the period including ratios

The financial results for the year ended 31 Dec 2010 were an improvement on 2009 results and the 2010 budgeted target. EBITDA, the Group's key measure, was £341.7m, compared to a budgeted target of £333.7m (2009 EBITDA was £336.6m). The revenue for the year was £432.4m (2009: £424.1m). The Group's overhead costs remained stable at £18.0m.

Dividends to shareholders in 2010 were £80m, a 56% reduction on prior year distributions (2009: £180m), which demonstrate the Group's commitment to deleverage its balance sheet by using surplus cash to repay debt ahead of scheduled repayment dates. The Group's debt at 31 December 2010 was £2,353m, compared to £2,430m at 31 December 2009. The reduction includes voluntary debt repayments of £47.2m. The Group also elected not to draw-down on available bank facilities, and instead used surplus cash balance to meet its funding requirements (equal to £18.0m).

The Senior Interest Cover ratio for the year ended 31 December 2010 was **2.1**, compared to the financial covenant requirement of **at least 1.5:1**.

The Leverage ratio for the year ended 31 December 2010 was **6.1**, compared to the financial covenant requirement of **no greater than 8.5:1**.

### 6.2. Credit ratings

**Standard & Poor's** issued 2 credit reports on Willow Bidco Limited, the Group's holding company for senior debt purposes. Both S&P reports (11 August 2010 and 19 April 2010) confirmed the Group's credit rating as **BBB/Stable**. S&P referred to the Group's *excellent business risk profile and strong and stable profitability*. The stable outlook reflects S&P's view that the Group will take advantage of its stable cash flow generation to improve its financial ratios in line with its covenant profile.

## 7. OTHER MATTERS

### 7.1. Other financial and business matters

During the year, the Group finalised its pre-acquisition (August 2008) corporation tax position with HMRC, which resulted in a tax refund of £9.6m.

The Group passed its first **RISAS** (Rail Industry Supplier Approval Scheme) re-assessment. RISAS aims to provide economies of scale to the railway industry by reducing duplication in the auditing and assessment of suppliers of critical materials and services. Angel Trains is the only ROSCO currently approved under the scheme.

Angel Trains participated in *The Sunday Times' Best Small Companies* survey and was accredited as a "First Class" company, which places the Group in the Top 500 Small Companies in the UK (of those that participated in the benchmarking exercise).

Angel Trains, 14 March 2011

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