Rail People
Real Expertise

Investor Report

1 July 2018 – 30 June 2019

1 GENERAL OVERVIEW

Angel Trains Group (the "Group") performed strongly during the period with EBITDA at £412.1m, an increase of £1.3m on the corresponding previous 12 month period.

The Group has maintained credit metrics consistent with the Baa2 credit rating throughout the period, following the rating affirmation by Moody's during December 2018.

At 30 June 2019 the Group owned 4,421 vehicles. During the period, new leases were entered into with nine franchises (including four franchise extensions), accounting for 1,802 vehicles (40.8%) of the Group's existing portfolio. Between 2019 and 2022 a further 1,376 vehicles are due for re-lease; excluding those which are covered by Section 54 undertakings. During the same period an additional 120 new bi-mode vehicles will be delivered.

At the period end, 96.6% of the Group's portfolio was on lease. The off-lease vehicles are a small number of Class 317 and HST vehicles. All are life expired with no further economic value attributed to them. A small number of Class 442 vehicles are earmarked for disposal.

2 SIGNIFICANT BUSINESS DEVELOPMENTS

2.1 New significant business developments for the period ending 30 June 2019

New Trains

There were no new train procurements during the period. However, focus on project management delivery continues with regards the following new trains:

Angel Trains is procuring 24 x 5-car AT300 bi-mode intercity trains (Class 802), which will be manufactured by Hitachi Rail Europe and utilised by FirstGroup on the TransPennine Express ("TPE") franchise and by First Hull Trains. The projects are currently running to schedule with the trains currently being tested with acceptance of the first unit early July 2019. The value of these contracts is circa £297m.

Refurbishment Projects

Angel Trains has engaged with the supply chain to ensure that modification programmes are in place to make sure all fleets forecast to operate past 31 December 2019 will comply with Persons of Reduced Mobility ("PRM") regulations by that deadline. Investment related to these programmes will ensure these vehicles can continue in service for years to come.

The Group's Hybrid Drive research and development project ("HyDrive") in partnership with Magtec Limited and Chiltern Railways is leading the market in converting an existing DMU to Hybrid Drive. The expected benefits are significant reduction in CO2, NOx, Particulate Matter and noise, as well as expected material fuel saving for train operators. The system will automatically switch to zero-emission battery-only operation on the approach to stations and maintenance depots, improving the environment for passengers and staff in these locations.

2.2 Re-leasing activity and current fleet utilisation

As at 30 June 2019 Angel Trains owned 4,421 rolling stock vehicles (with a further 120 in the build phase), with a fleet utilisation of 96.6% (2018: 99.0%).

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

- Virgin West Coast Trains – The franchise was extended from April 2019 to March 2020 (with an option to wind this date back 6 months), extending the lease on 574 Pendolino vehicles.
- Southeastern – The franchise was extended from June 2019 to March 2020, extending the lease of 200 Class 465 and 86 Class 466 (Networker) vehicles.
- East Midland Trains – The franchise was extended from March 2019 to August 2019, as a result, the following fleets were extended: 10 Class 153 vehicles, 8 Class 156 vehicles, 32 Class 158 vehicles, 18 HST trailer cars and 6 HST power cars.
- First Greater Western – The franchise was extended from 31 March 2019 to 31 March 2020, as a result, the following fleets were extended: 6 Class 150 vehicles, 88 Class 165 vehicles, 63 Class 166 vehicles, 163 HST trailer cars and 25 HST power cars.
- Arriva Cross Country - The franchise was extended by 12 months to 18 October 2020, extending the lease of 14 HST trailer vehicles and 7 HST power cars.

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

- Abellio ScotRail – 48 Class 314 vehicles were extended from 1 January 2019 to 28 February 2019 at a peppercorn rent. These vehicles were then disposed.
- MerseyRail – 177 Class 507/8 vehicles were extended from 1 January 2019 to 31 December 2019.
- First Greater Western – 9 Class 153 vehicles were leased to:
  - Abellio ScotRail – 5 of the vehicles were leased from July 2018 to March 2025
  - East Midlands Trains – 4 of the vehicles were leased from July 2018 to December 2019
- Abellio Greater Anglia – 80 Class 317 vehicles were leased from various dates in 2019 until 31 December 2019.
- Arriva Rail London – 56 Class 317 vehicles were lease from July 2019 to 31 December 2019.

The following new leases were entered into following the award of a new franchise;

- The Wales and Borders franchise was awarded to Keolis Amey Wales Cymru Limited (trading as Transport for Wales Rail Services), a joint venture between Keolis and Amey plc from October 2018 to October 2033. The incumbent fleets were leased until the dates specified as part of the franchise award:
  - 30 Class 142 vehicles until 31 December 2019
  - 5 Class 153 vehicles until 31 October 2022
  - 48 Class 158 vehicles until 31 October 2022
  - 70 Class 175 vehicles until 31 May 2022

The table below summarises the Angel Trains fleet by lease counterparty at 30 June 2019. Direct awards granted by the Department of Transport ("DfT") but not yet contracted are included.

Fleet by Lease Counterparties

Franchise Owner	TOC	Total Vehicles		Lease End Dates	Vehicles Leased		Franchise Type
Abellio							
	Abellio East Anglia Ltd	312		Dec-19 / Aug-20	7.06%		Franchise
	Abellio ScotRail Ltd	276		Mar-25	6.24%		Franchise
			588			**13.30%**	
Abellio, JR East and Mitsui							
	West Midlands Trains Ltd	216		Mar-26	4.89%		Franchise
			216			**4.89%**	
Arriva							
	Arriva Rail London Ltd	56		Dec-19	1.27%		Franchise
	Arriva Rail North Ltd	494		Dec-19 / Mar-25	11.17%		Franchise
	Chiltern Railways Ltd	97		Dec-21	2.19%		Franchise
	Grand Central Railway Company Ltd	50		Dec-26	1.13%		Open Access
	XC Trains Ltd	19		Oct-19	0.43%		Franchise
			716			**16.20%**	
First Group							
	Great Western Railway Ltd	226		Mar-20	5.11%		Franchise
	Hull Trains Company Ltd	20		Dec-19	0.45%		Open Access
			246			**5.56%**	
First Group / MTR							
	First MTR South Western Trains Ltd	973		Dec-19 / Aug-24	22.01%		Franchise
			973			**22.01%**	
GB Railfreight							
	GB Railfreight Ltd	4		Dec-19	0.09%		Freight
			4			**0.09%**	
Govia (Go-Ahead plc 65% / Keolis 35%)							
	London & South Eastern Railway Ltd	286		Mar-20	6.47%		Franchise
			286			**6.47%**	
Keolis / Amey							
	Keolis Amey Wales Cymru Limited	153		Dec-19 / May-22 / Oct-22	3.46%		Franchise
			153			**3.46%**	
Rail Operations Group							
	Rail Operations Group Ltd	4		Dec-19	0.09%		Hauler
			4			**0.09%**	
Serco / Abellio							
	Merseyside Passenger Transport Ltd	177		Dec-19	4.00%		Franchise
			177			**4.00%**	
Stagecoach Group							
	East Midlands Trains Ltd	74		Aug-19	1.67%		Franchise
			74			**1.67%**	
Trenitalia							
	Trenitalia C2C Ltd	112		Nov-29	2.53%		Franchise
			112			**2.53%**	
Department for Transport							
	London North Eastern Railway Ltd	117		Dec-19	2.65%		Franchise
			117			**2.65%**	
Virgin Rail Group							
	West Coast Trains Ltd (Virgin 51% / Stagecoach 49%)	574		Dec-19	12.98%		Franchise
			574			**12.98%**	
	Off lease	151			3.42%		*
	Marked for disposal	30			0.68%		**
			181			**4.09%**	
GRAND TOTAL		**4,421**					

* All off lease vehicles are life expired but opportunities are being explored
** Off lease, life expired with no future identifiable opportunities to release

3 REGULATORY / GOVERNMENTAL DEVELOPMENTS

3.1 Significant announcements / publications by any regulator or relevant government department

The Transport Secretary announced on the 20 September 2018 that a rail review would be undertaken by former British Airways Chief Executive, Keith Williams to lead a major review of the rail industry supported by an external expert panel. The review will consider recommendations for reform to ensure the rail system continues to prioritise the passengers and the economy. Various recommendations will be assessed by the panel to transform the railway operations model and to ensure franchising is 'fit for purpose'. The rail review will assess the roles of all industry stakeholders in order to increase coordination and will build upon the rail franchising strategy of bringing better alignment of the track and train to reduce disruption and improve accountability. The review will focus on leveraging a commercial model to ensure improved services and more effectively balance public and private sector involvement in the roles and structures of all parts of the industry, looking at how they can work together more effectively to reduce fragmentation, improve passenger services and increase accountability. The fares system will be included in the scope of the review to consider how it can better support improved value for money for passengers and taxpayers; and improved industrial relations to maintain performance for passengers.

The review panel is scheduled to submit its findings mid-2019, following which, the government will publish a white paper in the autumn based on the recommendations. The implementation of the reforms is expected to start from 2020.

The DfT refranchising programme has not been updated since July 2017 and has now been withdrawn from distribution, pending the publication of a white paper based on the recommendations of the Williams review. However, in the short to medium term a number of directly awarded franchises and extensions to franchises have been contemplated. Furthermore, in many of these directly awarded franchises a further extension option has also been included, which in our view, is likely to be exercised in a number of instances.

The table below summarises the latest position:

Franchise	Original Franchise Expiry Date (incl. contractual extension options)	New Expiry Date	Further Extension Option
South Eastern	March 2020	Not confirmed	A further Direct Award is contemplated of a minimum of 2 and potentially a maximum of 5 year duration
West Coast	March 2019	March 2020	Shrink back option at SOS discretion to November 2019
Cross Country	October 2020	Not confirmed	A further Direct Award is contemplated of a minimum of 2 and a maximum of 4 year duration
Greater Western	March 2020	Not confirmed	A further Direct Award is contemplated of minimum of 2 and a maximum of 4 year duration

The impact of the above announcements on Angel Trains remains broadly beneficial, particularly for the Networker Class 465, 466 and DMU portfolio, which now have later lease expiry dates than previously envisaged. The announcement that certain electrification programmes have been abandoned also further enhances the DMU portfolio.

4 CAPITAL EXPENDITURE

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

During the period the Group incurred capital expenditure of £153m:

- £78m relates to stage payments and capitalised interest for 95 Class 802 vehicles.
- £21m relates to PRM and CSO work carried on Class 15x vehicles.
- £14m relates to PRM and CSO work carried out on Class HST vehicles.
- £13m relates to direct award modifications carried out on Class 16x vehicles.
- £7m relates to Hall Bush and Wi-Fi modifications on Class 390.

The remaining £20m relates to various enhancement and refurbishment projects.

The Group had total capital commitments of £396m as at 30 June 2019:

- £158m in stage payments for the new Class 802 Hitachi bi-mode vehicles.
- £95m relating to franchise modifications for South Western franchise.
- £81m relating to PRM and CSO work.
- £30m relating to lease modifications for Class 350 vehicles.
- £14m relating to lease modifications for Arriva Rail North Class 150, 156 and 333 vehicles.
- £10m relating to direct award modifications for Class 165 and 166 vehicles.

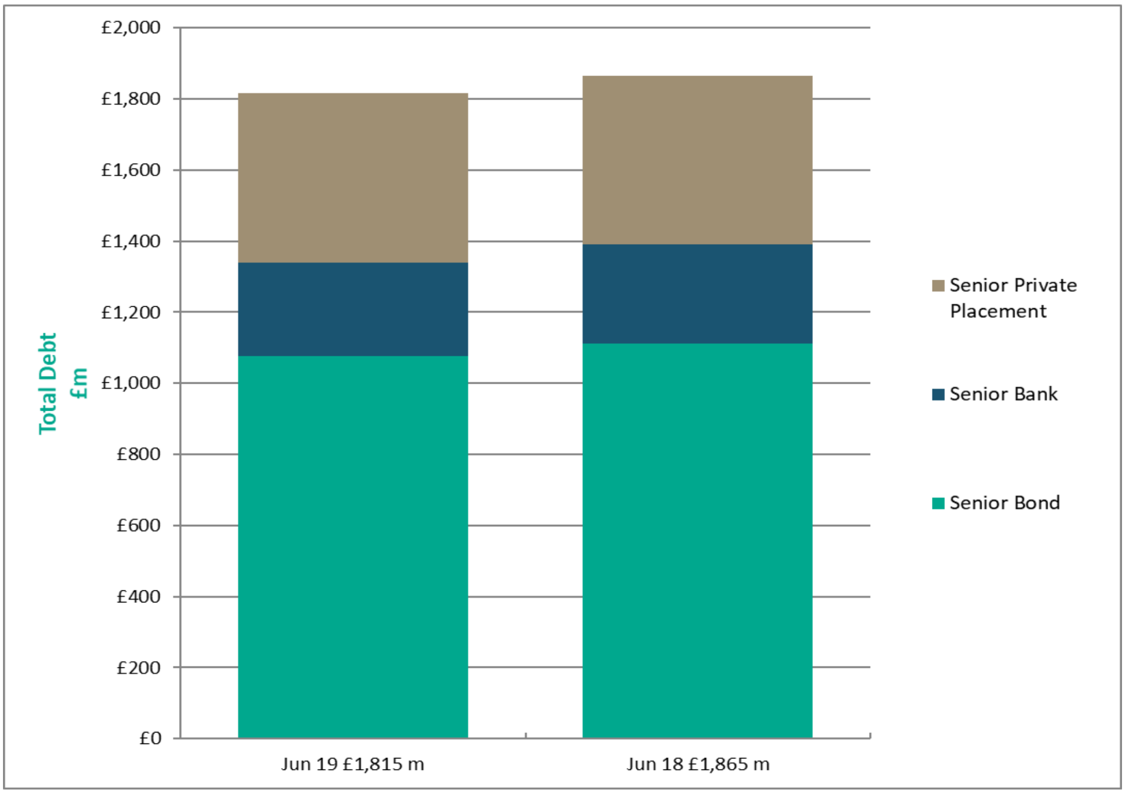
The remaining £8m relates to various enhancement and refurbishment projects.

5 FINANCING

5.1 Total Senior debt outstanding at 30 June 2019

Total Debt Outstanding					
Debt Type	**Debt Facility**	**Group Entity**	**Balance Outstanding**	**Issue / Facility Limit**	**Maturity Date**
Senior Bond					
	10-yr Bullet Bond	The Great Rolling Stock Company PLC	300,000,000	300,000,000	Jul-20
	20-yr Amortising Bond	The Great Rolling Stock Company PLC	397,900,000	460,000,000	Apr-31
	25-yr Amortising Bond	The Great Rolling Stock Company PLC	377,800,000	500,000,000	Jul-35
	Total for Debt Type		**1,075,700,000**	**1,260,000,000**	
Senior Private Placement					
	Floating Rate Note (EMTN)	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-31
	US Senior Private Placement	The Great Rolling Stock Company PLC	85,000,000	85,000,000	Nov-32
	US Senior Private Placement	The Great Rolling Stock Company PLC	200,000,000	200,000,000	Sep-34
	US Senior Private Placement	The Great Rolling Stock Company PLC	100,000,000	100,000,000	Nov-37
	Total for Debt Type		**475,000,000**	**475,000,000**	
Senior Bank					
	Revolving Credit Facility	The Great Rolling Stock Company PLC	0	350,000,000	Oct-23
	10-yr Bullet Debt	The Great Rolling Stock Company PLC	137,500,000	137,500,000	Nov-24
	15-yr Amortising Debt	The Great Rolling Stock Company PLC	127,200,000	137,500,000	Nov-29
	15-yr Amortising Debt	The Great Rolling Stock Company PLC	0	300,000,000	Oct-33
	Total for Debt Type		**264,700,000**	**925,000,000**	
GRAND TOTAL			**1,815,400,000**	**2,660,000,000**	

5.2 Senior Debt structure: June 2019 v June 2018



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 £412.1m. This was £15.1m above budget, mostly due to reduced Heavy Maintenance ("HM") and increased deferred revenue during the period. Turnover for the period was £499.7m (2018: £526.4m) and Profit Before Tax was £87.8m (2018: £154.5m). The decrease from 2018 is mainly due to mark-to-market adjustments going to the profit and loss on certain de-designated cash flow swaps as a result of decreases in average swap rates. Staff and overhead costs were under budget at £24.8m.

The Group's total external senior debt at 30 June 2019 was £1,815.4m, compared to £1,865.0m at 30 June 2018. The net decrease of £49.6m was due to:

- £42.8m of contractual repayments of the Amortising Bonds and Senior Debt;
- £6.8m reduction in the Revolving Credit Facility.

All senior floating rate debt remained economically hedged and no speculative derivatives were executed.

The Senior Interest Cover ratio for the period ending 30 June 2019 was **3.2**, compared to the financial covenant requirement of ***at least 1.5:1***.

The Senior Leverage ratio for the period ending 30 June 2019 was **4.2**, compared to the financial covenant requirement of ***no greater than 8.5:1***.

6.2 Credit ratings

Moody's affirmed the Baa2 credit rating in December 2018, highlighting that Angel Trains' credit quality benefits from the size, scale and fleet diversity of its leasing business, having high rolling stock utilisation rates, a track record of a stable industry oversight and support from the DfT, a strong long-term passenger growth outlook and the protective features of Angel Trains' ring-fenced financing structure.

7 OTHER MATTERS

7.1 Other financial and business matters

Angel Trains again improved its Global Real Estate Sustainability Benchmark (GRESB) score and was placed in a new European-wide Rail-specific peer group where it is ranked 2nd out of 8 European Private Entity Rail Companies.

The externally run annual employee survey was conducted in October 2018, with an increased response rate of 97.8% (2017: 97.0%). The results were very positive, with the overall "engagement rating" up on 2017 at 8.7 (2017: 8.5) against a national benchmark of 6.7 (2017: 6.8), and general satisfaction steady at 8.7 out of 10 (2017: 8.7).

Angel Trains continues to maintain its ISO 9001 and Rail Industry Supplier Approval Scheme ("RISAS") accreditation in support of its engineering services and quality management.

Angel Trains' fleets were awarded 'seven spanners' at the Golden Spanners Award held in November 2018, celebrating the best of rolling stock maintenance. Another 'highly commended' award in the Engineering and Safety category was received by Angel Trains at the Railway Innovation Awards in June 2019 for its 3D Printing, using technology to manufacture train components in an efficient and effective manner.

In December 2018, the Group was re-accredited by Investors in People (IiP) at the Gold Standard. IiP stated that "Such a high level of accreditation is the sign of great people management practice, and demonstrates a commitment to staff development and shows an organisation committed to being the very best it can be. Angel Trains Ltd should be extremely proud of their achievement."

Angel Trains, 28 August 2019